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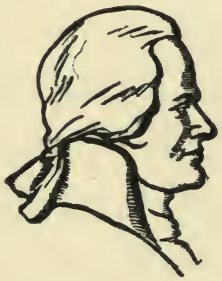
School of Business Administration

Modern Business

A SERIES OF TEXTS PREPARED AS PART OF THE MODERN BUSINESS COURSE AND SERVICE OF THE ALEXANDER HAMILTON INSTITUTE



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Modern Business

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MARKETING AND MERCHANDISING

BY

THE EDITORS

IN COLLABORATION WITH

RALPH STARR BUTLER AND JOHN B. SWINNEY

MODERN BUSINESS

VOLUME 5

ALEXANDER HAMILTON INSTITUTE

NEW YORK

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PREFACE

In all business, profits depend ultimately upon the ability to sell goods and services advantageously. A factory may possess every facility for maximum production at minimum cost, but unless the selling methods are carefully designed to meet the peculiar requirements of the product and of the market, the business cannot be conducted at a profit. The professional man and the business house dealing chiefly in services instead of goods likewise find the basis of profit largely in the ability to get in touch with those who need what they have to offer and in satisfying that need in the most acceptable manner.

The present text deals with the more general selling problems both of the manufacturer and the dealer. Under the heading "Marketing" it is the point of view of the manufacturer that dominates the treatment. Under the heading "Merchandising" the Text is concerned with the dealer both at wholesale and at retail.

The Modern Business Text in further volumes takes up special problems of selling. Two different expressions of the selling idea, advertising and salesmanship, are presented in separate Texts, while the general principles of salesmanship are exemplified in the Text on Business Correspondence. Furthermore, it may be noted that some aspects of the market-

ing of raw materials receives attention in the Text on "Speculations and the Exchanges."

Our obligation to the two collaborators in this volume is gratefully acknowledged. In one sense it is general rather than specific since their contributions, dealing often times with the same topics from slightly different points of view, have in the present volume been fused into one.

THE EDITORS.

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PART I

MARKETING

MARKETING

CHAPTER I

MODERN DISTRIBUTION

1. *Producer and consumer.*—In our modern economic life producer and consumer generally do not come directly in contact. There is a gap between them usually bridged by one or more middlemen whose function it is to gather up the products of field, mine and factory and bring them to the user in the forms desired. These middlemen constitute the market to which the producer sells and from which the consumer buys. A study of market distribution is mainly, therefore, a study of middlemen and their services.

So accustomed have we become to this form of business organization, that it is difficult for us to conceive conditions where, as in primitive times, each man or group of men in a family or a clan, themselves directly produced all which they consumed. But if we recall the frontier life in early American history, or the later life on Northern farms and Southern plantations, where most or much of the food, clothing and shelter was "raised" or otherwise provided by the farmers and frontiersmen themselves, and little

at first obtained by an exchange of goods with other farmers or the outside world, we can visualize the time when there was no exchange of goods whatever. The wants of men must have been very simple then. Thus when exchanges began to take place, they were, of course, made directly between the producer and the consumer. One had to hunt up the other. When in the course of time this procedure became onerous and expensive, relief arrived in the person of a go-between or middleman.

It is apparent, consequently, that the three successive steps in economical development have been producing for one's own needs; producing for direct exchange with one's neighbors; and producing for the general market. Neither of the earlier steps has altogether disappeared. Hundreds of thousands of city dwellers, for example, reverted to the first when they raised their own vegetables in "war gardens." Direct exchange prevails and must prevail indefinitely in many lines where the relation is necessarily intimate —telephone and telegraph, merchant tailoring, construction, domestic service, professional services and the like. But the great bulk of modern production is for the general market.

2. *What determines the distributing machinery.*— The means and methods by which goods pass from producer to consumer are sometimes simple, sometimes extremely complex. There is and can be no manner of distribution common to all products, and the number and importance of the several links in

the chain, as well as the relation between them, vary according to circumstances. Custom and tradition count for less than they did in the past. Modern business seeks to apply practical tests. It makes changes whenever it believes advantage will result.

The form of distribution which any given line has taken or may take depends largely upon the relative economic strength of the different elements in it. Large and powerful manufacturers, for example, dominate some lines and modify the methods of distribution there. In other lines, the producers, who may be farmers, are powerless because individual and unorganized. In many fields, the jobber was once all-powerful. Individual consumers are nominally and at this time the weakest link in the chain, tho in their political capacity or thru their political and judicial representatives, they nevertheless exert a potent influence on the methods of distribution. Witness the recent control of business in the interest of the war. Consumer cooperation in buying has had a definite beginning in America, but there is nothing to indicate that it will duplicate in the near future the remarkable growth of the great European wholesale cooperatives.

It is this tangled web of relations that the present volume is designed to study and elucidate. In the first part, "Marketing," it is concerned with the problems of the producer; in its second part, "Merchandising," with those of the dealer.

3. *Increased specialization in industry.*—The evo-

lution from the period of general production without exchange has left few people today engaged either directly or indirectly in the production of more than one article or one line of allied articles. As before said, this would not have been possible without middlemen. The middlemen specialized in exchange instead of production and made it possible for others to devote themselves exclusively and hence more efficiently and economically to production. The same specialization in exchange must unquestionably have been the occasion of a greater variety in goods. Under the old arrangement of direct exchange, a lot of time and energy would be used up in persuading people to take something new and pay a proper price for it. So novelty and invention were at a heavy discount. The institution of middlemen changed all that. Producers could experiment a little. There was a greater chance for progress. The middleman's market is a vast clearing-house of useful things at all ranges of price and quality. It is one of the most magnificent labor-saving short-cuts imaginable. In this way the middleman has become a market specialist. Generally the manufacturer is not. He is most frequently expert in manufacturing alone and seldom has either the training or the means to make a market for his goods by himself. He needs and is glad to use the services of a marketing expert.

The competition and specialization of individuals is not the sole or chief cause of the rise of the middleman. It is the nature of industry to develop in groups

or communities, and these communities are many and far apart from each other. Pittsburgh specializes in iron and steel products, Danbury in hats; Troy makes collars and shirts, Gloversville gloves, Glens Falls paper bags and boxes; the Dakotas grow wheat, California and Florida fruit, the South cotton, Idaho and Washington apples; and the list might be continued indefinitely. It would be too expensive if not physically impossible for one community to exchange its specialized product directly for the specialized products of thousands of other communities. No community has ever attempted it. Some general arrangement has been necessary to "clear" the products of all communities.

4. *Large-scale production.*—The indirect exchange of manufactured products has also been enormously stimulated by the quantity or large scale production made possible by the perfection of power machinery. A well-known soap manufacturer, when he began business years ago, purchased his raw material at the backdoors of the town in which he lived, and later delivered the finished product from a wheelbarrow to individual buyers. But when he moved into a factory and increased his output a thousand and later a million fold, he could no longer afford the time to sell his product in the old way; the employment of helpers to make individual five-cent sales of soap would have bankrupted him; he was forced to use the established middlemen, the jobbers and retail stores.

5. *Economic basis of modern marketing.*—Market-

ing methods grow out of and are founded in the industrial needs of the times. The middleman is a factor in marketing not because he has consciously made a place for himself, nor because consumers have carelessly permitted him to step in between themselves and the manufacturers of the things they buy and exact an unjustified tribute, but because of the necessities, on the one hand, of specialized and large-scale industry, and on the other hand, of consumers equally specialized in their demands for goods as well as for types of service which the distant manufacturer cannot of himself render. If middlemen as a class are to be abolished, it can be done only by abolishing the conditions that brought them into existence or transferring their functions to either the producers or the consumers.

6. *Selling problems versus manufacturing problems.*—In the early periods of industrial history, selling problems gave mankind little concern. In the period of no exchange they did not, of course, exist and in the period of direct exchange they were relatively simple. The problem of getting goods from the factory to consumers is one that could only arise in consequence of indirect exchange and could hardly become acute until the producers' supply had outstripped the consumers' demand, and there was unusual competition among the former class for the favor of the latter.

A generation or two ago, the most pressing business problems concerned manufacture. It was diffi-

cult to get goods enough to satisfy the demand for them. One result of this was to center attention on production processes. For several decades now they have been the subject of intensive study. Science and standardization have effected revolutionary changes and established a large measure of control over both the machine factor and the human factor.

In marketing there is no machine factor. There is only the human element, and while executive control of one sort or another is being gradually extended over it, the progress is still relatively slight. Some idea of the situation may be had from the reputed fact that 95 per cent of all business problems are selling problems. The larger part of the difficulty may be due to the inordinate production, but a still larger part is unquestionably traceable to the wastes of the distributive ways and means.

7. *Who is a middleman?*—Too often the term middleman is applied exclusively to one class of dealers, whereas, when used without qualification, it should include everyone who stands between the prime producer and the ultimate consumer and takes a profit for the risk he runs in addition to being compensated for the cost of his services.

Suppose, for example, that manufacturer A employs salesman B to sell goods to consumer C. B is paid for the cost of his services; he is not a middleman, because there is no element of risk and no profit in the compensation he receives; he is an employe and not an independent business man. Suppose, how-

ever, that A employs no salesmen, but utilizes the services of D, a retail dealer, who agrees to carry and sell A's goods to C when and as wanted. The actual time or service that D puts in must be covered in some way, and in addition he must also receive enough in the form of profit to compensate him for the risk he runs in investing his capital in the business of distributing A's goods. These elements of risk and profit-taking make D a middleman. The total payment to him for service and as profit, (and whether A pays one or C both in the form of price is immaterial) may be less than the earnings of the regularly employed salesman, he is none the less a middleman if he has assumed the risk and taken a profit.

8. *Greatest of the middlemen.*—Most people, when they speak of the middleman, appear to have in mind the jobber or wholesaler. The jobber, however, is in a very small class. Still less important, from the standpoint of the number and volume of business they transact, are the brokers, commission men and other intermediaries of the same general type. The greatest class of middlemen are the retailers. They not only outnumber all other middlemen twenty times over, but the total volume of their sales exceeds that of all other kinds of middlemen combined by as much, of course, as the extent of the retail "mark-up." It is the retailer who is the outstanding factor in our distributing system; his service, his function, his needs must receive the major attention in any discussion of the scope and value of the middleman's service.

9. *Middlemen and the manufacturer.*—Middlemen, as a class, provide and actually are the market organization for the adjustment of supply to demand. They furnish a clearing-house not only for the items of production and consumption, but also for the facts as to their supply and demand. Thru their agency, the producer is enabled to gauge probable demand. The manufacturer in Detroit, for instance, learns of the needs, desires and demands of people in Los Angeles and Boston, or even Pekin and Melbourne, by means of the chain of middlemen reaching out from him to them. In the market for manufactured goods there are many consumers for each producer, and it is organized in such a way as to provide for the breaking up of the manufacturer's output into many small units for the use of a large number of individual buyers. The large majority of manufacturers cannot possibly feel the pulse of the final market at first hand, because of its size and extent. Middlemen do this for them. They also allow a credit accommodation—the jobber to the retailer or the latter to the ultimate consumer—that the manufacturer could seldom or never afford and thus enlarge and facilitate his business.

10. *Middlemen and the consumer.*—The middleman is of equal aid to the consumer. He brings together, in the retail store, most of the things that you need; keeps them for you until you want them; anticipates other wants; educates you with reference to new goods; obtains for you what he does not keep

in stock; in other words, does for you what you could not possibly do for yourself in a life time. Neither would it be possible for the retailer by himself to do it for you. The vast development of service is made possible by organization.

11. *Aid in stabilizing prices.*—Finally, as a result of his work in posting the producer on demand and the consumer on supply, and thus bringing demand and supply more closely together, the middleman is influential in helping to establish more or less uniform and stable prices over large areas. A definite world value for wheat, for instance, is chiefly due, in time of peace, to the organization of the wheat market. The same thing is true in greater or less degree of many different articles. The advantage which the public derives from the general uniformity and stability of prices is the advantage that standardization of any kind may be expected to give, namely, protection against loss thru fluctuations in price, freedom from personal care in guarding against such losses, and, finally, ability to plan more intelligently with regard to supply.

12. *Middleman as a producer.*—In the foregoing discussion, the term "producer" has been used as the common and convenient designation for the agency by which goods first come on the market, that is to say, the farmer, miner, or more generally the manufacturer. It was formerly thought, as you have already read in the Text, that these producers are the only ones who "created" useful things, or what is more ac-

curate, put the utility into them. The mere handler of goods, the transporter, the warehouseman, the dealer, was generally pictured as one who had thrust himself into the situation and levied tribute on the needs of the consumer and the only true producer. For centuries he has been criticised and curbed in what are now accepted as some of his most valuable functions. At every period in which prices rise and the cost of living is changed, popular criticism seeks a target in the middleman. For the past ten or twelve years it has been so in this country. Hence it is well to inquire how far this is justified and, if the service of the middleman does not add utility or value to the goods he handles, just what does it add. In his "Elements of Economics," Professor Richard T. Ely says:

> It has seemed to some, even among economists of an earlier time, that the farmer is more truly a producer than the manufacturer, and the manufacturer than the merchant; but careful thought discloses the fallacy of such a view. All industrial classes alike produce one or more of the four sorts of utility, and they do so by changing the relations of things in time or space. The farmer changes the position of grains of corn by dropping them into the earth. Then he removes the weeds and throws earth about the rising stalks. Thus man's arts in changing the relations and positions of things, aided by Nature's materials and forces, result in more corn for human consumption. The manufacturer in the same way changes the position of pieces of matter, and, aided by natural forces within and without the object of production, he causes the matter to assume a form that fits it, or better fits it, for human needs. So, too, the merchant changes the places of things from where they

are less useful to where they are more useful, or holds them in one place until a change of external circumstances gives them greater utility. He is producing utilities as truly as is the farmer or the manufacturer.

13. *Four kinds of utilities.*—To say that the middleman's main function is to provide a clearing-house for goods is, therefore, only another way of saying that his main function is to create utilities. We shall do well to be more precise on this point. A utility, as we were reminded in the Text on "Economics," is anything that satisfies a want. Of the four kinds of utilities described, the first, the inherent or natural quality for which something is desired, for instance, the life-sustaining elements of wheat, is called elementary utility. When the wheat is ground into flour in order to make it more edible, it is said to have been given new *form utility.* Again, the fact that flour, possessing both elementary and form utility, if in a miller's warehouse in Minneapolis, is of little interest to a baker in New Orleans. If the flour is to have real utility for him, it must be brought to New Orleans; in other words, *place utility* must be added to it. Even with the addition of this further usefulness, however, the citizen of New Orleans may not be able to utilize it. If it is brought to his city in May and he does not need it till July and will not take it until then, it must either be sent back or else be stored by someone so as to be available to satisfy July needs. Thus the flour, even tho possessing elementary, form and place utility, cannot be used unless it also pos-

sesses *time utility*—the quality of being available for use when needed.

With elementary and form utility the market organization has, as suggested, nothing to do. Goods possess those characteristics before they reach it. But place and time utility are added by the middlemen when they perform the important services of moving things from the place where they are produced and not wanted to the place where they are or will be wanted and holding them against that demand. These services are vital to trade. Somebody must perform them.

14. *Some middlemen must go.*—It does not follow, however, that the services shall always be performed by middlemen. In many industries, it is becoming convenient to do without middlemen entirely and sell thru branches, agencies, chain-stores and mail orders to the public direct. In other industries a smaller number of middlemen are being used, for example in the textile lines, where a long and once formidable chain of middlemen is being shortened for the good of the business and the public as well. In all lines where middlemen flourish, abuses are being weeded out, wastes eliminated or arbitrary powers curbed. At the same time, the conclusion which some observers draw that the middleman is doomed to extinction is somewhat hasty. To admit that some types of middlemen are economically unjustified and should be abolished is very far from admitting that all middlemen, even all jobbers, are bad and should go. Some

middlemen in all fields must go and doubtless most or all in some other fields must do the same, but many of these changes will be due, as many of those already accomplished are due, to the slowness of middlemen in adapting their organization and service to new requirements. When the adjustment is made, and it is even now taking place, manufacturers and consumers may both be expected to abdicate the jobbing and retailing functions in some degree and return to their own specialties.

15. *Middlemen and competition.*—The only influence that could seriously threaten middlemen as a class would be a change from the competitive to a monopolistic system of industry. Such a system, whether privately or publicly operated, would doubtless consist of one concern or group of allied concerns engaged in manufacturing a given commodity or line of commodities, and would have its own distributing organization. Developments toward monopoly had gone to great lengths in Germany. In our own country, the same tendency, always latent in competition, has been drastically checked by the Sherman Law and various judicial decisions. It is noteworthy that power production first creates a need for middlemen to distribute the increasing output and then urges on individual manufacturers to open up direct channels to the public for the more rapid movement of the goods than middlemen, as general distributors for many manufacturers, are willing or able to effect.

But it is certain that under prevailing conditions no one interest or set of interests will be permitted to control an industry. Groups of small manufacturers may operate a distributing system cooperatively, as has been done, but it will be broken up as soon as it approaches the monopolistic stage. There is no legal or moral bar to the cooperation of consumers on any scale, but the movement is too new in America to promise much danger to the established markets. As to government monopoly, that seems to be the most remote possibility of all.

Under the present competitive system, the field is free to any one who wishes to start in business, who discovers a place where the creation of some kind of utility will mean comfort and convenience for the public, for which the public will be willing to pay. As long as we continue to operate on the present basis of "a fair field and no favors," we shall continue to have middlemen. No producer of time and place utility who performs a needed service, who does his work efficiently and who takes only an honest profit need apologize for his existence or fear that he is out of tune with the economic trend of the times.

REVIEW

What is your opinion of the popular contention that the only economically justified method of marketing is direct from manufacturer to consumer?

In your business is it true that the problems of marketing are more difficult of solution than the problems of manufacturing? Why?

How do you, personally, profit by the existence of middlemen?

If some one should contend that the middleman is not a producer, how would you prove him to be wrong?

What is the connection, if any, between the continued existence of middlemen and the competitive system of industry?

CHAPTER II

THE FIELD OF MARKETING

1. *Growing importance of distribution.*—Until very recently the leading place in industry was occupied, as said, by production. The problem of the past has been to produce staple goods to meet the demands of a fast-growing population and a market which was constantly being widened thru improved methods of transportation. To meet these urgent demands the best brains in the industrial world were kept at work devising original methods, new machines and improved processes which would make possible an increased production at lower cost.

Conditions which obtain in the business world today lay stress upon the side of distribution. The producer must go to his market where formerly the market came to him. It is necessary, therefore, that the producer give to marketing the same thought and attention that has brought production to its present high state of efficiency.

2. *What is marketing?*—To the producer, marketing is the manner in which the product is disposed of, the way in which it is distributed for him, often with his cooperation, thru the various channels of trade. On the other hand, merchandising, which parallels

marketing at many points and is frequently confused with it, is the process seen from the jobber's and the retailer's standpoints and includes not only the distribution of the goods but their acquisition as well. Manufacturers *market* their products, jobbers and retailers *merchandise* their stocks of these products. Thruout the Text this distinction will be made.

Marketing assumes different aspects to different kinds of producers. For the grain farmer the problem is comparatively easy. After he has harvested his crop he has only to make arrangements with a commission house to purchase it and thus his marketing problem is solved. For the miner and the fisherman marketing is equally free from complexities. But for the manufacturer, the process is far different. He must determine whether he shall make use of the services of the jobber and retailer in marketing his product, or whether he shall sell direct to the consumer. He must also consider the methods to be used in reaching markets. Furthermore, he must fix upon the kind of market he wishes to reach and consider its various limitations. These are only a few of the questions which must be decided by him before his marketing campaign is fully worked out.

3. *Agencies used to reach markets.*—In disposing of his product, the producer must first determine the means which he believes will exert the most effective selling force. Two are available—personal salesmanship and advertising. The former is direct and restricted in scope, the latter indirect and broad.

Personal salemanship is an attempt to sell the product to individuals by direct solicitation, while advertising makes the same attempt thru the printed word and reaches the mass as well. Either of these agencies or both in combination may be used by the producer in marketing his product.

If the producer turns out an article which is sold largely in bulk, say a staple food, or goods of variable price and quality and sold by sample, he will be likely to use personal salesmanship in selling it. If, however, he is putting on the market a branded commodity or one which may be sold from description, it may be possible for advertising to take the place of personal salesmanship so far as calling on consumers and retail dealers is concerned. In most instances, new articles are introduced, and sustained by a combination of both salesmanship and advertising, introduced frequently by one kind of combination and supported by another kind. The nature of the goods to be sold is the most important consideration in arriving at a selling method. In any case, the producer cannot rely upon the assistance of any standard, cut-and-dried plan of procedure, but must himself devise methods suitable to the prevailing conditions. Since his aim is to secure the volume of sales that will return him the greatest net profits, whatever method of distribution or combination of methods promises to produce that result, will be the one adopted. If the method fails to justify itself, it will be dropped for another. Changes fundamental in method and even

in policy are not infrequently made in the search for the plan that shall meet all requirements of internal and external conditions for the time.

4. *Boundaries of the market.*—In reaching out after markets the producer must not fail to realize their limitations. These limitations are determined largely by the nature of the product to be marketed. For example, a seasonal product commonly has a time limitation on its sale. A luxury is bought by the few and not by the many. An article may appeal to only one class or section. At the same time the producer cannot accept limitations at their face value. Often they are matters merely of trade custom, general fashion or mental inertia, and may be overcome. For example, fur manufacturers have created a summer market for the product. Northern manufacturers of warm weather goods develop a Southern or South American demand. The use of luxuries spreads downwards. And goods that seem to have few uses turn out upon inquiry to have many. Limitations are to be considered rather as difficulties and suggestions of possible opportunity rather than as fixed barriers.

The variable human element here revealed is an important consideration in marketing. The producer must roughly estimate the purchasing power of the classes he is attempting to reach, bearing in mind the fact that altho numbers increase as lower groups in the same market are included as potential buyers, the per capita purchasing power decreases. This in

turn leads to a consideration of other factors in the problem of selling, such as geographical location (the advantages offered for instance, by the city as a market as compared with the country) and the training, environment, education and economic position of the persons forming the prospective markets. All these factors influence wants and have a part in determining consumer demand and thus help to indicate the accepted boundaries of the producer's market.

5. *Mapping out a plan of campaign.*—Whatever plan of campaign is adopted by the producer in marketing his product, it must be the result of careful analysis. It would seem unnecessary to make this statement were it not for the fact that many men still settle problems of distribution by rule of thumb methods, first guessing at the way to build up a market and then following up the guess with a kind of selling campaign which has only a gambler's chance of being successful.

If, after consideration, the producer has decided to employ salesmen in marketing his product, the men should be carefully selected, trained and supervised. If the selling is to be done by advertising, there must be an advertising department organized, possibly an advertising agency selected, a policy determined, advertisements written, space arranged for and the results of the advertising checked up. All this work is done "under cover," so far as the public is concerned. The public sees only the smooth running machinery in efficient salesmanship and attention-compelling

advertisements and is not aware of the arduous planning, the problems met and solved and the selling schemes that have been considered, adopted or rejected before any part of the selling campaign is launched.

The manufacturer who is about to start on a selling campaign is like a general before engaging in battle. He must have surveyed the field in broad perspective; he must know his product as a general knows his troops. He must, so far as possible, be familiar with his market and the various ways of reaching it, just as a general knows the topography of a battlefield and the lines of communication. Without this information the producer cannot undertake a real selling campaign, but will make only a "hit or miss" attempt to gain a market.

6. *Single purpose of selling activities.*—Just as any well-organized business has all its activities coordinated, so in any selling organization it is necessary for salesmanship and advertising to work together. Unhappily this has not always been the case. Sales managers and advertising managers have set up partisan methods for increasing business. Certain types of salesmen have had "no use for advertising" and some advertising men have failed to see that their work is in the nature of salesmanship. Even manufacturers at times have followed the misguided policy of keeping advertising and sales campaigns separate.

This lack of coordination between salesmanship and advertising is passing away, but it has not yet disap-

peared. There is still enough of it remaining to merit the warning. The only way to guard against a misunderstanding of these agencies of distribution is to study their work as complementary parts of marketing. Viewed in this light, the work of both can be made increasingly effective.

7. *Need for studying marketing.*—For the manufacturer it is not sufficient that production is an open book to him. He needs to be similarly sure about distribution. He needs to know the basic facts about markets; to analyze and weigh them and then construct a far-reaching selling policy that dovetails his factory needs and capacity.

8. *Survey of the marketing field.*—Marketing, which embraces the first part of this Text, is, therefore, taken up with a consideration of the trade factors of the distributive system from the producer's point of view. It includes a study of the product, the market and the trade channels and elements used by the producer in disposing of the product. The trade relations which the producer establishes with the jobber, the retailer and the consumer are next considered. A discussion of special problems which come to every producer, like those of good-will and price maintenance, follows. Finally, the specific ways in which markets are reached and campaigns are planned are taken up in detail.

Thruout this part of the Text the point of view taken is that of the producer, but the principles discussed are fundamental to all forms of selling. A

detailed consideration of the problems which more directly affect the merchant is taken up in "Merchandising" which forms the second part of the Text.

REVIEW

1. What conditions in the business world today make the manufacturer's problem one of distribution rather than one of production?
2. State what factors tend to form the limits or boundaries of the manufacturer's market.
3. Are salesmanship and advertising, considered as methods of marketing, in conflict? How may their results be coordinated?

CHAPTER III

STUDY OF THE PRODUCT

1. *Necessary considerations before marketing.*—Before any product can be marketed three important elements are to be considered. These are the product, the market and the way in which the market is to be reached. Let us consider first the product.

2. *Testing the product.*—A product is not generally pronounced ready for the market until it has been subjected to various tests. These are of two general kinds, technical tests made in the laboratory and workshop and, if the article is also of a mechanical nature, practical tests to make sure that it may be easily operated by the purchaser.

An instance of extreme care sometimes taken is furnished in the case of Crisco, a product of the Procter and Gamble Company. This was given a series of tests lasting over a period of two years before it was accepted as a salable product. During this time it was tried out in chemical laboratories, cooking schools, private homes in different sections of the country, restaurants and many other places. Many changes were made in its composition as a result of the experience.

A technical test may fail, however, to do more than

establish technical utility. It cannot tell in advance what the market will say. Only a practical tryout will settle that. For example, an attachment for a talking machine was useful and inexpensive, but did not sell. The failure was at length found to be probably due to inartistic design. The manufacturer thereupon cut away part of the metal to show an interior mechanism. This change and a wash of gold plate so improved the attachment in appearance that sales were easily made even at an advance in price.

The introduction of a new product to the market is not the only logical occasion for study and test. Machinery, package and label designs go out of date or need freshening, for competitive reasons. The same is true of the size of the package. When war conditions forced upon American manufacturers a choice either of raising their prices or reducing the package, many chose the latter alternative.

3. *Tests for quality.*—Manufacturers test not only their own products but frequently also those of their competitors. A candy manufacturer in order to find out how his confections rank with those of his rivals must necessarily compare their respective products. The method is to lay out samples of his own and other brands, without identification, and have his expert tasters pass on the quality of each. Next his chemists analyze the ingredients. The manufacturer himself then studies the shapes, color and appearance of the candies and the design of the packages and labels. If the results do not satisfy him in every particular,

he makes the necessary adjustments in his recipes, processes or designs.

A manufacturer who is very sure of his product may turn these tests to promotional account, as the Colgate Company did a few years ago. Three perfumes manufactured by this company and three of foreign make were placed in plain bottles. A number of women were invited to make public tests and declare their first, second and third choice. Some 103 women did so. The test showed that 63 or nearly two-thirds of them had chosen the domestic perfumes, altho 41 of the number had previously expressed a preference for foreign scents.

4. *Raw materials.*—There is no more important question to the manufacturer than that of raw materials. An adequate supply must be assured him at reasonable price or he cannot continue in business. If he is able to control his own source of supply, he may easily effect various economies which are out of the question for competitors not similarly circumstanced.

The United States Steel Corporation, controlling, as it does, every step of production from raw material to finished product, has many advantages over other steel manufacturers who are obliged to purchase their raw materials in the open market and pay a higher price for them.

A full and steady supply of raw materials allows the the manufacturer to plan his output more or less closely, and do so also with relation to his marketing

campaign. If he cannot count upon the supply, he is likely sooner or later to run into trouble. An automobile manufacturer, for example, who has agreed to deliver 5000 automobiles in a season and then after making arrangements to market this number finds that he will be unable to secure a sufficient supply of steel at satisfactory prices will be obliged either to cancel a number of orders or else make his deliveries at a loss, and he might actually be forced to choose the latter alternative in order not to forfeit the good-will of his agents.

As the cost of raw materials helps to fix the price of the finished product, manufacturers must watch the supply market closely for price fluctuations. This is especially important, of course, when the manufacturer has standardized the price of his product and cannot afford to change it for any but the most compelling of reasons. If he cannot change the price of his product and cannot depend on a stable supply at a stable price, he must protect himself by buying in large quantity when the price is low and perhaps carry, on speculation, more than he may actually need. The only alternative is to set his own price high enough to cover all possible advances. But this, of course, places him at a disadvantage in competition with closer buyers.

5. *Plant capacity.*—After the urgent questions of demand, competition and marketing have been answered, the next most important are those dealing with the volume of sales expected and the plant capacity

that is to take care of it. Sales and output ought, of course, to move up together. Failure to keep the factory fully busy entails a loss of possible profits, while on the other hand an oversold condition long continued brings more capital into the industry and thus increases competition and eventually selling costs. Capable managers prepare their sales campaigns with reference to production possibilities, and plan their plant extensions on the basis of what the sales will or may be made to show.

Manufacturers sometimes, nevertheless, undertake elaborate campaigns without exercising this precaution. An advertising agent induced a manufacturer to advertise on a large scale. The advertising agent made all the necessary arrangements in connection with the copy and mediums, but did not go into the question of how any large increase in sales might be handled by the factory, and the manufacturer on his part gave the matter no attention. Neither expected immediate results. The advertisement, however, unexpectedly "went big" and produced so much business that the factory was swamped with orders. Many orders had to be refused and a large amount of the publicity gained was thus wasted.

6. *Labor supply.*—Any analysis of the product must also consider the labor supply. If unskilled labor is employed, is there an adequate supply of it at hand? If skilled labor is used, can the operators be trained up in the plant, or is it necessary to go outside for them? Union labor versus an open shop

policy—this question, too, may force itself upon the manufacturer in the form of a strike that may interrupt production and so affect marketing, or else in the form of a possible sales appeal, if the "union label" is a desirable or necessary addition to the goods.

7. *Costs and profits.*—While goods are usually sold at the price they can be made to bring in the market instead of on the mathematical basis of "cost-to-make" plus "cost-to-sell" plus "profit desired," it is only by knowing his costs every step of the way, by going on that mathematical basis of pricing, that any manufacturer may be reasonably certain of escaping disaster. Unless he knows the cost of his raw materials, his capital, his rent and interest, labor, salaries and commission, etc., the manufacturer may eventually find himself doing business at a loss. This is not at all an uncommon experience. A gas engine manufacturer, for instance, sold his entire output to a mail-order house at a price which, after hasty figuring, looked good to him. Later, some doubt as to the wisdom of the deal having risen in his mind, he installed a cost-finding system. It revealed to him that the price he had accepted for his goods covered only the cost of raw materials and manufacture and left him no profits whatever.

8. *Influence of price.*—One of the strongest influences upon demand is the price. A low price must, it is evident, greatly assist in the development of demand, while a high price must have the opposite effect. When the American Thermos bottles were put

out at $7.50 to $12 they were purchased as a luxury by a restricted class and the sales were necessarily somewhat limited. As soon as prices were reduced to $1 and upward, the demand instantly broadened.

When, however, quality is in the balance with price, the situation may be different; price may have to conform to the requirements for quality. A case in point is suggested by an experience in the flour milling trade. Some years ago, the ten thousand or so millers of the country were each proclaiming his own product the best, and yet all were competing on a price or cut-throat basis, and none had courage enough to fix for himself a price that was fair and adequate, and stick to it. The advantage of course rested with the larger mills since they could buy their wheat in the world's markets at the lowest prices, while smaller mills had to grind high-grade local wheat which gave them scarcely enough margin of profit for existence.

The situation was one that many lines have gone thru. As in other cases, some one eventually saw the light. It was a small concern, the Russell-Miller Milling Company, in North Dakota. It decided that there were enough bakers and housewives in the country who wanted quality first and last in their flour to support a house that guaranteed it. So it broke away from the general and meaningless assertion of "best on earth" and adopted as its slogan the legend "Occident flour—costs more—worth it." Not only did the house build up a highly successful business on this policy, but its success helped to put an

end to the previously prevailing, demoralizing régime of price competition.

9. *Naming the product.*—Before a new product is launched upon the market, a suitable name must be found for it. The matter will be seen to assume not a little importance when it is understood that it involves trade-marks, good-will and advertising considerations. Many names, the "Gold Dust Twins," for example, are said to have a good-will value of more than a million dollars each. The largest houses give the most care to the selection of a brand designation and put it thru all sorts of "acid tests" before finally adopting it.

A leading question in this connection is: Can the name chosen be protected by registry at the United States Patent Office; is it original and does it avoid certain forbidden grounds? In choosing a name, therefore, the manufacturer will do well to scrutinize carefully the names of products in his own and other fields. Whatever other failings a trade-mark may have, it must not fail to be original. Protective records should be secured so that in case a competitor should make claim to the trade-mark years after it has been established, unassailable proof against such claim may be advanced. Trade-mark specialists give advice on this and related points.

Besides meeting the registry requirements, the name chosen should also be distinctive and striking. It should help to sell the goods and not confuse them with other goods of somewhat similar name. When

the well-known Procter and Gamble Company decided to put a naphtha soap on the market they called it the "P & G Naphtha," even tho a similar soap, Fels-Naphtha, had been on the market for some time. This name bore such a close resemblance to that of the Fels product that many consumers, moved by the Procter and Gamble advertising, but with the older name lingering in their memory, called for "P & G Fels-Naphtha" and naturally got the Fels product many times. This of course was so much business lost to the newly advertised goods. Arbitrary, invented names like Uneeda, Nabisco, Yuban, Ryzon, Crex and Socony are better than such colorless names as Standard, Acme, Star and American, which are used for hundreds and thousands of other products and may be confused with some of them.

Whether a name is easily pronounced or not is also to be considered. Rather than call for Clicquot Club ginger ale by name, some persons might take another brand which seemed easier to pronounce. It would be interesting to know how far the names, Bon Ami, Sanatogen, Crême Elcaya, Djer-Kiss, have affected sales thru their apparent difficulty of pronounciation. Some manufacturers spell the name phonetically just beneath the brand name; others who did so for a time have abandoned the practice. It is hard to tell whether and how much an odd name helps or harms. Probably the best way is to make sure that it is not too odd.

Brevity, too, is desirable in a name. You will find

few words over six or seven letters among the invented names. The fewer letters, the larger they may be on label and posters and in advertisements. Finally, while a purely descriptive name, i. e., "Superlative," "Best," "Only," etc., is refused registry, somewhat the same effect may be gained by choosing a name carrying a suggestion of the qualities in question. For a white soap probably no better name could be chosen than "Ivory," or for fast black stockings none more suggestive than "Onyx."

10. *Quality of attraction.*—Attractiveness of appearance is always a strong selling point. This is especially true for food and toilet articles, but it is true, in some measure, of everything. Even a machine is better for looking neat and shapely, rather than clumsy and angular. The more senses to which products and their packages can be made to appeal, the greater will be their strength in competition.

Appearance may often be the chief or only point of superiority in a product over competing products. Some years before the war, the English Government became alarmed over the inroads which German competition was making in Great Britain. A commission appointed to investigate the situation and decide the reason for it, reported that the German goods were "inferior" to the English goods in materials and workmanship and were higher in price but that the designs of German merchandise and the packages in which it was sold were so much more attractive that the British public preferred them to those of home manu-

facture. We cannot say that they were not right. We must keep in mind that "quality" and not what manufacturers think they ought to have is what consumers want.

11. *The container.*—Besides studying the product itself, the manufacturer, if his goods are to be sold in package form, should devote some time to planning the package or container. Size, shape, weight and color are all considerations. The manufacturer of Washington Crisps, a breakfast food, based his introductory advertising appeal on the fact that the size of his package was larger than the standard size made by his competitors. Log Cabin Maple Syrup is put up in cans shaped like miniature log cabins. While this is inconvenient for packing it makes an admirable means of identification. Many articles like soap, shaving cream, face creams and powders resemble each other so closely that in order to develop any marketing appeal at all the manufacturers must develop distinctive packages for talking points, as well as identification.

Color is an excellent means of identification. One manufacturer of toilet articles used the same color scheme for all packages and reproduced these colors whenever possible in his advertising. It is becoming customary with all manufacturers to adopt a uniform style for all members of a "family of products," on account of the advantage in advertising. The colors of competitive packages are also a consideration. A brown package was selected for Yuban coffee prin-

cipally because there were no other solid brown packages on the grocers' shelves and hence Yuban would attract special attention. The same reasoning governed the selection of a blue label for Ryzon baking powder.

12. *Examining the product for selling points.*—In order to find the best selling points of the product before it is placed on the market the salesmen and the advertising men must carefully dissect it, pick it to pieces, in order to find its every possible use. This will also frequently point out the best way of reaching a market.

One sales manager made use of a set of charts for this purpose. On the first chart, which was divided into five columns to correspond with the five senses, were noted the physical facts about the product that appeal to each of the senses. The second chart was for functions; on this was shown what the product did. The third chart told where and by whom it was made. The fourth bore a detailed account of how the goods were made and their ingredients. The fifth chart listed the most important sales arguments to consumers and the sixth applied the same information for dealers. By using system in his sales analysis of the product, the sales manager made sure that no prime point was overlooked.

How important it is to study the product from the right angle of approach is shown by the fact that the selling point which is the most important from the manufacturer's standpoint may not sell the goods at

all. It is said that the first selling appeal of the manufacturers of Felspar varnish was based on the quick drying features of the product. While this interested the dealers it made no appeal to the consumers and it was not until the point was brought out that Felspar would not be discolored by water—a point much more vital to consumers—that the consumer campaign was successful.

13. *Demand for the product.*—A study of the product is not complete without a study of the possible demand. Is there a market for the product? If not, can people be made to want it? Before any investment is made, these questions must be weighed, for it depends upon the way they are answered whether the business is to succeed or fail.

Many influences focus on demand. If the article is novel to the buying public, the manufacturer of it, to secure the public's attention, must distinguish it from other products. Since nobody has blazed the way in the same line under the same conditions, he will have a marketing problem all his own. If, on the other hand, the product resembles others already on the market, the manufacturer may be guided by precedents in launching it. For example, package oatmeal was much more easily introduced to the buying public than were vacuum cleaners, because oatmeal had previously been sold in bulk, while the nearest thing to a vacuum cleaner was the markedly different carpet sweeper.

Demand, too, is influenced by the status in which

the product is put, whether a luxury or a necessity. Altho these terms are elastic and change with the times, a luxury of our grandparents being a necessity in our day—typewriters for instance were first a business luxury—nevertheless a new product must make its appearance on some particular price level and must appeal to the class of people who can afford the price.

The volume of the demand is another consideration. Will the article sell only once to an individual, a family or a business concern, or is it a "repeater," and above all a rapid repeater? Some articles of restricted demand, like machinery, which sell at a high price and carry a wide margin of profit, can be marketed without "repeat" orders. But this is not possible with a low-priced article like food, on which the profit per unit may be a cent or less. To attain large profits, sales must be enormous and that is not possible unless people buy over and over again. Clothing is an admirable "repeat" article; popular trademarked clothing if consistently pushed, may keep the same customers for years.

Some articles may be developed into repeaters by revolutionary improvements. For instance, the old style razor, barring injury, lasted a lifetime or more, and grew better with age. It was often handed down from one generation to the next. Moreover, many people could not shave themselves and had to patronize barbers or grow beards. This made the sale of razors as slow as that of thermometers today. Then

the safety razor was invented. This not only made more self-shavers, but it created a large new repeat market for the sale of the separate wafer blades.

14. *Estimating consumption.*—With certain products fairly definite estimates of demand may be secured. This is especially true in the case of foodstuffs, because the Government publishes statistics of annual per capita consumption. By dividing the total amount consumed in the United States by the population, the amount of the per capita consumption will be obtained. Multiplying the annual per capita consumption by the population in a district will give the manufacturer the annual consumption for that area. It will be a more difficult task to find the proportion of this demand which each food manufacturer is probably satisfying, but he must do it in order properly to estimate the proportion which he himself may control.

In making any estimates on the demand for foodstuffs, the manufacturer should bear in mind that the rate of increase, even for staple articles, taken over a period of years, is very different for different products. The per capita consumption of sugar for instance increased 108 per cent in 40 years while that of tea increased only 38 per cent.

Another way of estimating possible consumption is to take a known quantity of something affecting the demand or supply and from that estimate the supply or demand itself. For example, from the number of bags, boxes, cartons or bottles sold to one or more

competitors an investigation may yield a fairly accurate estimate of the total sales of the products for which the bags, etc., are used.

An ingenious use of statistics in marketing has been made by Mr. R. S. Patrick, a diamond drill manufacturer of Duluth. Mr. Patrick knowing the number of drills used in the ore districts served by him and the average wear of diamonds per foot of rock drilled, is able from these data to calculate the number of carats of new diamonds periodically needed and so fix the proportion of these his own salesmen should sell.

Large manufacturing establishments, figuring over a period of years to establish sound bases for their marketing plans, have been able to calculate within five per cent of the amount of product which subsequently was found to be consumed in a new territory. The use of statistics for estimating consumption is becoming more and more general in business.

15. *Testing out demands in advance.*—It is highly desirable to "feel out" the market in advance by a small test campaign, if the results obtained are known to be a reliable indication of what would happen to a larger investment. It is not always possible to obtain dependable deductions from even a very careful study of both territory and production. The only thoroly trustworthy evidence is actual sales under normal conditions. Before launching a large and expensive campaign to introduce a new product, most manufacturers nowadays try it out in several small local

campaigns in towns or territories remote from each other. A comparison of the results will give valuable information. When the market is not "felt out" in this way, there is danger of heavy loss. This is well shown in the publishing business. A dozen different publishing houses, according to the estimate of one of them, have spent in fifteen years over a half million dollars in a fruitless endeavor to sell sets of books on agriculture. One of the concerns spent $50,000 to advertise them. On the other hand, the market for technical books has often been successfully determined by sending out a few thousand letters before a line of the book had been written. If sufficient demand was not aroused the book was not produced and those who had subscribed had their money refunded with an accompanying letter stating that the publication of the book had been delayed or indefinitely postponed and that the subscriber would be notified in due course. The difference of the two markets should not be overlooked. Technical literature has a steady if not large demand from the engineering and other professional classes. Farmers have only recently begun to take, in any large numbers, a scientific interest in their work. The time to have made an investigation of the market for agricultural books was before publishing.

16. *Demand affected by nature of goods.*—It is advisable to determine at the outset whether the product to be introduced is a staple article with promise of a permanent demand or whether it can hope to be a fad only. If the former, a large immediate

investment in good-will may be justified for the purpose of heading off competition and in the expectation of securing large ultimate returns. If the latter, no investment should be made that does not look to immediate returns. A manufacturer of roofing materials, for instance, who develops a specialty with novel talking points, will not only have to make a large plant outlay, but if he wishes to make the most of the opportunity opened up for him by the improvements before his competitors develop new products of their own to oppose it, he must also make a still further investment in sales or advertising power. Many businesses or departments do not and are not expected to "turn the corner," that is, reach a self-supporting status, for three, four or five years. On the other hand, the manufacturer of a product of only temporary appeal, like, say, a war map, a globe, a war puzzle, trench boots, etc., must keep his eyes firmly fixed on the demand in sight and be ready to change with it.

17. *Seasonal demand.*—If a product sells only during the summer or winter or at the Christmas or Easter holidays, special consideration will be necessary to enlarge the market. The alternatives are finding new fields, new classes, spreading the demand over the balance of the year, and adding other products to supplement it and keep the factory running on off-seasons. One instance of the way in which this may be done is afforded by a manufacturer of metal gift novelties. At first these sold only during the Christ-

mas holiday season. Gradually he lengthened the season and introduced other novelties of the same nature until he had a "family" of novelties in various finishes that had a market most of the year. Similarly, a factory making ice skates bridges over the dull season by making roller skates. A manufacturer who prefers to specialize rather than develop a line of products will find the foreign market a possible help when the domestic demand falls off.

Seasonal demands naturally must be gauged in advance. The facilities of the United States Weather Bureau are of much help in doing this. The manufacturer of waterproof goods such as umbrellas, rain coats and rubbers may, for instance, make a study of rain-fall in different sections, and know more or less precisely the requirements of each.

It is well to remember, too, that seasons come earlier in some parts of the United States than in others. Spring clothing, for example, is sold in New Orleans during February, while in Duluth, May is often early for its sale. Underwear, straw hats, in fact, almost all articles of wearing apparel have their selling seasons. If the manufacturer sells thru dealers, the dealers have their season for buying. The seasons are the same for certain products, like automobiles, but for others, like wearing apparel, as long a period as six months sometimes intervenes between the time the order is given by the dealer and the time the goods are received. The manufacturer who can secure returns from the sale of his product steadily thruout

the year will follow business policies different from those of the man with only two selling seasons, and who in off seasons must either discharge most of his salesmen or put them at missionary work, which for the time at least is unproductive.

18. *"Family of products."*—The question of whether a manufacturer shall market one product or a line of products is one to be determined by practical considerations. A single product is easier to handle. If it has a rapid-repeating quality or a wide market, it may call for all the energy and capital of its promoters. But the "line" also possesses certain marketing advantages, in addition to advantages in manufacture, administrative policy and financing.

In the first place, a traveling salesman can sell a line almost as easily as he can sell a single product, sometimes more easily. This reduces the selling cost of each item and permits more profit on each. In the same way, it reduces the pro rata cost of advertising.

Furthermore, a line gives prestige to all its items and the number and variety of the items enhance the good-will of the whole. The average line gets more display in the dealer's store and show window than the average single product.

A strong line, especially when advertised, crowds many weak, single competitors out of the store or market: dealers, that is to say, can only buy about so much; if they buy a line, some competing single products will have to suffer.

Lastly, a line of products is a great advantage to

the manufacturers in helping him to prevent retail price-cutting. A dealer may be willing to sacrifice his profits on a single product, and risk being cut off by the manufacturers, but he will think twice before jeopardizing his interest in a line.

It will be seen that the idea of the "family of products" contains the germ of monopoly and may conceivably be carried to extremes. Judged from its recent utterances, the Federal Trade Commission evidently thinks that this is being done in the case of the large meat packers. Whatever restrictions shall be put upon the practice in the future can hardly, however, affect the ordinary producer. For him, the "family of products" may still be a vital means of developing his business.

REVIEW

Describe the various technical tests which may be made. Why are they necessary?

In what sense are the availability of raw materials and the capacity of the plant vital factors in the marketing plan?

How should the name for the product be chosen?

What factors are to be considered in analyzing demand?

CHAPTER IV

STUDY OF THE MARKET

1. *What constitutes the market.*—After a manufacturer has disposed of his goods to the jobbers and the jobbers have passed them on to the retailers, there is still another step that the goods must take before the manufacturer is assured of a satisfactory issue to his efforts and a promising future for his business. The retailer must pass the goods on to the consumer. Then, if the consumers are satisfied with them, a foundation for confidence is laid and reorders follow. It is the consumers that constitute the real market of the manufacturer. The jobbers and retailers are only middlemen. After their work is done, it still rests with the consumers either to buy or to refuse to buy. If they refuse, neither retailer nor jobber will buy again, and the manufacturer is left without a demand.

Not all manufacturers produce for the general or largest market. Some produce for dealers, some for jobbers, some for other manufacturers. A manufacturer, for instance, who makes cardboard boxes finds his ultimate market among the manufacturers, jobbers and retailers who need cardboard boxes to pack their goods. A manufacturer of store fixtures considers the dealers as his market.

2. *Sources of the market.*—The manufacturer naturally must know where his market is to be found; he should know also its character. This is not always obvious. Automobile manufacturers, for instance, had been many years in business before they discovered that while the man picked the car and paid the money, it was often the wife who told him what to pick and how much to pay. Now they are finding that the good will of the boy, too, is worth something. He may not only know more about cars than his father and be able to influence his father's and mother's choice, but in a few years he will be a buyer himself and he is worth cultivating to some extent on that ground alone. The selection of furniture, house furnishings and numerous other goods for which the head of the family pays the bill is usually left to the wife, daughter or sister. In these cases, means are taken to reach the woman and boy behind the man. On the other hand, the makers of mechanical toys have found that the father many times is buying for himself when he thinks he is buying for the boy. Consequently, the advertising must be aimed to reach the father as well.

Whether the appeal shall be made directly to men or to women is an important consideration; it determines sales channels, advertising arguments, sales arguments, the choosing and training of a sales force, the fixing of prices, the use of demonstrations, sampling and in fact all the many phases of the marketing plan.

A searching study of the buying habits of the market under survey will often disclose possibilities that have been passed over unnoticed by competitors. A manufacturer about to market a new line of hosiery, for instance, discovered by such a study that rural and small town people at that time were less accustomed to buying hosiery by brand than city people. He, therefore, centered his appeal on the country trade and in this way made a market for his goods, while escaping the close competition prevailing in the cities.

For many staple products the available market is so wide that manufacturers are often able to concentrate with advantage upon a special field. They choose either the city or the country trade, the man or the woman, the adult or the child. After the value of each field has been determined, the manufacturer should choose the "line of least resistance" and focus his whole selling campaign upon it.

3. *Geographical limits of markets.*—While a growing business may expand from a sectional territory to country-wide distribution or eventually be called upon to satisfy a world demand, it must be borne in mind that with every large expansion, the manufacturer will encounter new and often radically different systems of competition and transportation. This precludes the formulation of a single selling plan for all territories. In large cities, it may be desirable for an implement manufacturer to operate factory branches and stores; in small cities, he may have dis-

tributors and in small towns, sell thru dealers. Market limits are also sharply defined by custom. Yellow laundry soaps sell generally thruout the United States, but the states of the Northwest have shown a preference for white laundry soap. White corn meal is popular in the South and yellow corn meal is demanded in the Northern States. There are many such instances and a manufacturer about to introduce a new product should ascertain what local or sectional preferences or prejudices, if any, may affect the sale of it.

Until quite recently American manufacturers with some notable exceptions have been satisfied to confine their selling efforts to the domestic market. It has been a large and profitable one and its character and tendencies are more or less familiar to them. The foreign market, on the other hand, has been a closed book to most American producers. This condition is changing in part, because of the war. The Government is making it progressively easier for manufacturers to enter the foreign field. They may now combine to do foreign business. American banking connections have been established abroad, discount companies have been organized, and more extensive transportation facilities are rapidly being secured. The movement has already manifested itself in radical changes in the sales policies and sales methods of many manufacturers.

4. *Methods of making purchases.*—In making purchases consumers are governed by a number of con-

siderations which amount to buying habits. The manufacturer entering a competitive field should acquaint himself with them. If consumers usually purchase certain goods in bulk, is it possible to change the demand to one for package goods? If articles have always been sold by their common names, what is the chance of inducing the public to call for them by brand names? The manufacturer who asks himself questions such as these cannot answer them intelligently unless he has information as to what the people of his territory want, and why.

Specific articles contributing to personal comfort, health or appearance may secure such a strong hold upon the consumer as not ordinarily to be broken by a competitive appeal to the weaker motives of utility or economy. For example, a man who has been suited for years with a certain brand and style of hat will probably not change to another style or brand without considerable thought and comparison. The same man, however, will readily abandon one kind of office ink for another that is said to be cheaper in price or perhaps higher in quality. It is not his comfort or appearance that is concerned. By weighing just such considerations as these with respect to his own product, the manufacturer will be enabled to estimate the amount of business he should secure in the competitive field and come to some conclusion as to the direction his selling efforts should take.

The agency thru which a product is ordinarily sold is an important consideration. Does the consumer

usually buy from the manufacturer direct or thru a dealer? Does he purchase the goods by going directly to one of the sources of supply, or does he buy only on personal solicitation? Such office devices as adding machines and cash registers must have a demand created for them in the latter way. Advertising will seldom bring a business man into the salesman's office to purchase an adding machine, nor will it induce the average man to visit a life insurance office in order to take out a policy. Business men do not, on the other hand, desire to be solicited in their offices for articles which they can buy in stores. In spite of this, many manufacturers occasionally do send salesmen around to get in touch with the consumer, generally in an intensive effort to make or recover ground, perhaps in connection with an advertising drive, or on some other plausible pretext which will gain them admission.

Some other buying habits of the consumer must be studied with special care. Does he expect credit and will refusal of credit tend to curtail sales? Does he buy in large or small amounts? What price is he in the custom of paying for a similar product? What is his present preference and why? Some habits are due merely to absence of taste or conviction, while others are deeply ingrained. It is obviously unsafe to go into any expensive campaign to change the latter without the best kind of evidence that it has a chance to succeed. A very successful manufacturer of chewing gum spent many thousands of dollars

trying to get the public to "Buy it by the box," but did not carry his point.

5. *Tendency of market to increase or decrease.* —A manufacturer usually enters a field only when there are signs of a strong, active demand for goods of his kind or line. He naturally expects to start with a part of the demand, whatever, in fact, may be deflected from goods already on the market. A strong current demand, moreover, is a promising indication of a latent, unexpressed one.

If business in the field chosen shows but a slight increase over that of the previous year, or is stationary or even decreasing, the wise business man will make an investigation before committing himself to a start. It may be that the market has reached a point of saturation due possibly to temporary conditions. It may be, on the other hand, that the article he plans to produce is being superseded by something more useful. This happens all the time. For instance, while candles are still being made the demand is not increasing at the same rate as the population because of the adoption of more modern methods of lighting. Such a market holds out little promise to a newcomer. However, it does not follow that every improvement puts an old article out of business. More brooms than ever per capita were sold after the carpet sweeper came in and the only effect the vacuum cleaner has had thus far on the latter is to increase its sales. The explanation is that every improvement simply educates more people, and makes a broader market.

People will not always bother to use a carpet sweeper when a broom will do, so they have both.

It is probably safe to say that the static or the declining market does not represent a typical condition. Articles are not always displaced every time a competitive improvement appears. Usually the improvement is copied, or the article is otherwise modified to meet the new demand. If the sales for a commodity are not on the increase it is in most cases because the manufacturer of it is neglecting or overlooking the opportunities there. When such a market is revealed to investigation, it should be attractive to the outsider, since it offers a field for real constructive salesmanship, where business may be much more easily secured than in a hard fought competitive field.

6. *Competitive influences.*—Forewarned is forearmed. The more a manufacturer can learn about his competitors, the better equipped he will be to enter the selling field. To ignore competition or to be ignorant of it is to fight in the dark. There are various agencies from which a large amount of trade information may be secured in a legitimate way. The number of competitors and their trade names can be gotten from lists prepared by commercial agencies and oftentimes published in trade publications. Commercial agencies, too, can also furnish such information as the length of time competitors have been in business, the extent of their resources, etc.

In undertaking a study of the competitive field,

the manufacturer wishes to know primarily how the market is divided. If he finds, for example, that of fourteen rival organizations supplying the territory, one has secured 75 per cent of the business, another has 10 per cent and that the remainder is divided among the other competitors, he gains a clearer idea of the kind of competition he has to face than if he merely knows he has fourteen rivals. If, to keep his plant running, he needs 10 per cent of the goods which the territory consumes, he will find it cheaper and easier at first to try for the business of the "trailers" than to challenge the strongly entrenched leader.

A market in which there are a few dominant leaders and a large number of "trailers" appeals more to a progressive manufacturer than one in which there is a large number of competitors all having nearly the same relative strength. If the largest manufacturer in a field has only 15 per cent of the business and a number of his competitors are each able to secure from 10 to 12 per cent of it, the newcomer, if he plans for a large output, must from the start rank well up with the leaders. In order to accomplish this difficult undertaking he must not only be well provided with capital but also possess in himself or in the person of his sales manager a great deal of selling strategy.

Then there are the marketing methods of competitors to consider. What policies do they follow with reference to sales channels, advertising, dealer cooperation, credits and a host of other matters entering

into a sales campaign? The manufacturer needs this information, not for the purposes of imitation, but in order to profit by the mistakes which others have made. Novelty in sales methods may no doubt be valuable, but it is not to be secured by sacrificing the good-will of dealers or consumers. Oftentimes the proved methods are best.

Finally, it is essential that the manufacturer have a knowledge of the prices charged or discounts allowed by his competitors to jobbers, retailers and consumers, as well as the margin of profit allowed to each class of middleman. The manufacturer who prices his goods to dealers at such a figure that they cannot make selling expenses out of them will not only lose in cooperation but will soon be without dealers. To charge consumers a higher price for an article which does not obviously exceed in quality articles with which it competes will eventually kill any campaign. On the other hand to fix the price below the prevailing market price will tend to demoralize trade conditions and bring in cut-throat competition with all its train of business evils.

7. *Transportation limits markets.*—No consideration of markets would be complete that did not take in the subject of transportation. In order to shorten hauls and save expense, not only must a factory be advantageously situated with respect to the source of its raw materials and also have abundant labor at hand, but it must be close to its markets. It is not always possible to find all three factors grouped in

one locality or section. Labor supply may then be the most important factor to consider. Nearness to raw materials will similarly count for more if they are bulky and carry relatively higher freight charges than do the manufactured goods. Again, a factory producing for a general demand might be well located in a small town in the middle States, while a factory catering exclusively to a large city population would doubtless find its best site in the city.

More than anything else probably, transportation limits the size of a manufacturer's market. He will be hampered unless shipments of goods can be made quickly, cheaply and at frequent intervals. Discrimination against him in the matter of freight rates or in transportation service will also be injurious. Such discrimination is forbidden by law, but it sometimes takes place and the manufacturers must be on the lookout to protect themselves.

Except in the case of patented articles, such as novelties which cannot be duplicated and branded articles so widely advertised as to be really specialties, the manufacturer's market is limited to the area in which his shipping charges do not exceed those of his competitors. Some large concerns serve all sections of the country thru branch factories or warehouses and in this way are able to lessen materially their shipping charges. The advantages of a location with good favorable transportation facilities is well shown in the case of the Standard Oil Company. This company with a refinery in Bayonne, New Jersey, is

able to reach New England distributing points by water at a transportation cost which cannot be duplicated by competitors.

For certain classes of articles, for example, bricks, building stone and other cheap and bulky commodities of universal use, the transportation limits are narrow; nearly every section can produce them for itself and does so when the freight cost is excessive. Other articles of high grade and compact size like silks and clothing are not affected by transportation costs, which add only a fraction to the total cost and therefore can seek the farthest markets. The principle, however, holds true—transportation costs tend, tho not always effectively, to limit markets.

REVIEW

What things must the manufacturer take into consideration, if he is to determine where his best market lies? What is meant by the purchasing habits of consumers? Should a manufacturer try to change these habits?

Does the introduction to the market of new and improved articles mean that the old article is going to be put out of business? How may it be the means of increasing sales of the old article?

Why should a manufacturer make a study of his competitors' products and methods of marketing?

Would you prefer to enter a field in which competition is split among many competitors or a field in which a single manufacturer now controls a big proportion of the business?

CHAPTER V

TRADE CHANNELS

1. *Trade channels and their development.*—All goods in passing from the manufacturer to the ultimate consumer follow certain routes, some direct and others indirect. The routes are commonly called trade channels. They may be compared to several kinds of railroad systems. Some goods pass only from one point to another on a single line and are consumed; these have followed the direct route from manufacturer to consumer. Others start out on the main line and complete their journey on branch roads or divisions. Here we have the manufacturer-retailer-consumer or possibly the manufacturer-agent-consumer method of selling. Still other goods go from the trunk line to a branch and from the branch to the smaller spurs. The main line is the manufacturer, the branch is the jobber and the spur the retailer, the consumer being represented of course by the terminus.

2. *Development of trade channels.*—The earliest trade channels were, as described in a previous chapter, direct connections between producer and consumer. This was in the days of barter. Later, in mediæval times, the producer, a handicraftsman, still sold his products direct to the consumer. With the

widening of the market, however, the handicraftsman generally became the employe of a middleman, who retailed them to the public. When the larger national market develops, we find a more ambitious middleman taking the goods of the producers in quantity and disposing of them to retail middlemen in many different localities who, in turn, sell them to the consumers. With the discovery of steam and the development of power machinery and factory management, the producing class becomes a more influential factor. It now sells to wholesalers, who distribute to retailers and the latter to the consumers. The system has many modifications and exceptions, but in the main, for goods that are retailed, it is the normal one.

3. *Old chain of distribution.*—The rise of the factory system brought the producers from the employe class into that of the merchant, but as the system widened, more kinds of middlemen came between the producer and his market. Under the old style of market organization many manufactured products often passed thru as many as four instead of two channels from producer to consumer: (1) Commission merchant; (2) jobber; (3) wholesaler; (4) retailer. Occasionally factors and brokers also found a place in the line.

4. *Middlemen decreasing.*—This type of distribution is now confined to the textile trades. The general tendency in business has been to lessen the number of middlemen. Some of their functions are now being performed by other agencies, the risk on

goods in transit, storage or consignment, for example, which was once taken by one middleman or another, now being covered by insurance. Middlemen once transported the goods they bought. The goods are now carried by rail and water carriers and by parcel post. Some middlemen commonly helped to finance the undertakings of some producers, a function now more generally performed by banks. Middlemen were the only agencies for making the goods known. This is now done in a more effective way by advertising.

On the side of the consumer too, the demand has changed and in turn forced other changes. Consumer demand for rapid supply of fresh styles, for example, has caused a shortening of the chain between the producer and consumer, when the chain is too long or slow to "speed up." The producer on his part is generally not unwilling to get away from the wholesale middleman, when the latter, as is sometimes the case, is autocratically controlling the output of goods, reducing the producer's profits and even discouraging any contact whatever with the retailer and consumer, even for the purpose of learning those things which a producer must know in order to safeguard his business. By branding and advertising his goods, the producer can tell the whole story direct to the retail dealers or to the public. In this case, branding and advertising do what the wholesaler before did, namely, identify or guarantee the goods and make them known.

5. *Competition in present-day marketing.*—When trade channels were more or less fixed in character, as they formerly were on account of limitations in transportation, credit, banking and other facilities, the manufacturer had scarcely any choice of selling methods. He made few attempts to open up a contract with the consumer because it would have been too expensive to maintain. The same conditions made competition slight and essentially local. The leaders of trade established the leadership by exploiting new countries rather than by intensively developing old ones. Advertising, one of the most powerful agencies in distribution, had to wait for the development of railroad and postal transportation, the magazine press and other elements before it could exert an influence in changing trade customs and channels. Selling in the old days was comparatively easy; demand exceeded supply.

The situation today is the exact reverse. An almost constant excess of supply makes the competition among producers for the favor of the public a continuous incentive to change and improvement. Custom and tradition, therefore, cut no figure in the market as against economy and efficiency. They must perhaps be reckoned with, but they do not determine policies. The manufacturer has a wide latitude and choice and will select the trade channel, selling methods and territories which he believes will bring the best results.

6. *Methods of trade in selling staples.*—Most sta-

ples are sold thru the conventional manufacturer-jobber-retailer channel. Probably ninety per cent of all groceries are so sold. Drug store lines, hardware and dry goods are sold in the same way even tho in different proportions. The trade in these commodities forms a large proportion of the entire retail trade. Many important distributors, however, sell directly to retailers and some to consumers, while many in these lines, as well as outside of them, use different methods in different territories or in the same territory at different times.

7. *Functions of the manufacturer.*—The distinguishing characteristic of a manufacturer is that he changes the form of a commodity. He secures the raw material and thru the application of labor works it up into a finished product, or else receives his product in parts and assembles it into a whole as in the case of automobiles, watches and many other products. The farmer who raises wheat from seed, soil and labor is, in this sense, a manufacturer. So also is the miller who purchases the wheat and grinds it into flour. So is the baker who purchases the flour and bakes it into bread. The automobile manufacturer who buys parts for automobiles in the open market and then assembles them in his factory is no less a manufacturer than his trade rival who forges every part that goes into the construction of the car. The man who makes cigars in the rear of his cigar shop is a manufacturer just as truly as the powerful American Tobacco Company.

8. *The jobber.*—The jobber is so called because the typical middleman of whom he is the evolution bought "jobs" or odd lots of goods and resold them in part or whole to retailers and sometimes other jobbers. The name stuck to him because it distinguished him from the typical wholesaler of the time who was either a manufacturer or the representative of one or more manufacturers. The distinction no longer exists and, as has already been pointed out, the words jobber and wholesaler are now used interchangeably for one who buys in large quantity from manufacturers and sells in smaller lots to retailers. Frequently a merchant is both jobber and retailer. Sometimes a jobber has no established market and differs only from a broker in that he carries a stock. Some lines have sub-jobbers, who are small jobbers serving a small district.

9. *The retailer.*—The word retailer is taken from two words meaning "to cut again" and was at first applied to a class of middlemen who purchased cloth by the piece, or in quantities, and then cut off smaller amounts for sale to consumers. The modern retailer buys goods and sells them again without change in form to the consuming public.

10. *The consumer.*—The consumer is defined by the Standard Dictionary as "one who uses up an article of exchangeable value, either in serving his own wants, or in producing from it another article of value." Business men commonly use the term, however, to mean the ultimate or private consumer,

who uses for himself the things that he buys and who does not sell them again either in their original or in an altered form—in short, the "man in the street," the "head of the family" or the housewife.

REVIEW

What is the general tendency in business in the use of the middleman?

How are some of the functions formerly performed by middlemen now being carried out by banks, insurance companies, advertising, etc.?

What has been the effect of the development of transportation systems upon competition?

Distinguish between manufacturer, jobber, retailer and consumer.

CHAPTER VI

SELLING TO THE JOBBER

1. *Consumer unfamiliar with jobber's service.*—Outside of the trade the function of the jobber is little understood. The consumer seldom comes in touch with his activities. This is the only reason why, in times of high prices, a portion of the public has come to look upon the jobber with suspicion and to consider the service he performs as costly, in some cases, even unnecessary.

The indispensable part which the jobber plays in distribution has been thus aptly described by a writer in "Printers' Ink":

> The jobber is the "transfer station" of the commercial world. He receives large shipments from manufacturers, subdividing each shipment and consolidating the subdivisions so that a small quantity of each manufacturer's shipments are sent in one large aggregate to each retailer. This is just the same as making up carload lots of shipments from various towns to some one town. If we stop to think what an expensive and inconvenient thing it would be for each manufacturer to make many small shipments to retailers, and how much it would add to the cost to consumers, we will cease to look at the jobber as adding unnecessarily to the cost of distribution.

2. *Jobber specializes in distribution.*—The average manufacturer knows only the manufacturing end of the business. He is unfamiliar with marketing and

turns to the jobber because the latter knows the trade, knows what goods in general will "take hold" and what will not, because the jobber can provide him with a clientele of fairly permanent customers. The manufacturer finds it cheaper, quicker and easier to reach the retail trade by making use of the jobber's services than by attempting it himself.

3. *Jobber provides sales force.*—The jobber provides the manufacturer with a trained sales force. In many lines this is a great economy. What manufacturer, for instance, could sell a competitive line of groceries to the 300,000 retailers of foodstuffs in the United States thru his own staff? He would need no less than 300 men to cover the territory properly. If, however, he uses the jobbers, he may carry a staff of not one-tenth of the number.

4. *Jobber's intensive cultivation of markets.*—Contrary to a somewhat prevalent impression, the jobber works the market as a whole more thoroly than any but the largest manufacturer can afford to do. When an ordinary manufacturer sells direct to the retail trade his salesmen must take comparatively large orders to make their calls profitable. A salesman of catsup, for instance, would probably not call on small dealers or visit out-of-the-way places. The jobber can do so because catsup is only one of a thousand articles which he sells and its selling cost forms only a small part of the total selling cost which he meets. For this reason his salesmen can sell to the smallest dealers and still make a profit for him.

On the other hand, the jobber's salesmen seldom have time to "push" a single brand or line, even their own, very aggressively. This is the manufacturer's idea of intensive cultivation. It can be had from the jobber under exceptional circumstances, but the manufacturer will do well not to expect it unless he, himself, provides the plan, motive and a good deal of the effort.

5. *Jobber gives storage service.*—When the manufacturer sells direct to the retailers he must provide his own warehouses. By selling thru the jobber, this expense is saved to him. In fact, the warehousing function is one of the most important the jobber performs. In connection with this service, the shipping charge also should be considered. The manufacturer shipping direct in bulk, possibly in carload lots, to a few jobbers instead of to many retailers, effects a substantial saving.

6. *Jobber's credit and accounting service.*—A manufacturer dealing direct with retailers must carry a large number of accounts entailing a large investment of capital and much credit risk as well as considerable amount of clerical expense. A manufacturer of a grocery specialty, for example, with a complete national distribution, if dealing directly with retailers, would have to carry more than a quarter of a million accounts. The expense of bookkeeping, of establishing credit relations and the losses resulting from bad debts, which keeping a large number of accounts necessarily requires would be prohibitive.

No manufacturer could possibly do it. Since the manufacturer, however, deals only with the jobbing trade, the number of his accounts will not exceed 2500 at the most. He has only the credit standing of these few customers to keep track of and he generally gets his money promptly in ten days or less. Clerical and similar expenses can thus be kept at a minimum.

7. *Using jobber's services in part.*—While jobbers may be indispensable to a manufacturer, it is not always necessary to use all of the machinery they provide. The manufacturer can make shipments direct from the factory to the retailers on orders which may have been taken either by the jobber or by the manufacturer's own salesmen. These "drop shipments," as they are called, are billed to the jobber, who takes all the responsibility of collection. The financial arrangements between the jobber and the manufacturer are the same as if the goods had gone first to the jobber and then had been shipped by him to the retailer.

Another instance of using the jobber's services in part is where manufacturers send their own salesmen to call on retailers. In many cases this is a work of cooperation, the salesmen acting as trade missionaries to promote the goods with the retailer, and to aid the jobber's salesmen in taking orders. If the salesmen of the manufacturer take orders from retailers, the retailer is asked to name the jobber to whom the order is to go. The salesman then sends the order to that

jobber, who gets a commission on the sale. The order may be filled either from the jobber's stock or direct from the factory.

8. *Making the jobber's service more profitable.*—It has been pointed out in criticism of the jobbing system that in some lines the merchandise in passing from manufacturer to retailer is packed and unpacked, assorted and freighted, by so many brokers and jobbers that the price which the consumer is made to pay for it is appreciably increased. As a remedy for this situation, it has been suggested that the jobber shall not handle the goods at all, but act solely as sales agent and collector; that all his orders shall be taken either on a drop shipment basis or else for shipment by parcel post, direct from the factory, and to make the latter possible, retailers shall be encouraged to buy in small amounts. By the use of this plan, its advocates claim, the many expenses of reshipment would be saved.

In many kinds of businesses, however, it is certain that it would be more expensive to make a large number of small parcel post shipments than to ship a much larger quantity by freight, even with one or more reshipments, and successive handlings. And in other kinds of businesses, the annual saving if certain would be small. Any change from the present system must probably be an evolution, rather than a sudden breaking away.

9. *Jobber and the private brand.*—If the only functions of the jobber were those which serve the inde-

pendent manufacturer, some of the greatest difficulties that affect the system would not have arisen. Most jobbers in all lines put up goods under their own private brand or label and thus compete with many of the manufacturers whose goods they distribute. In most instances, they do not manufacture the goods themselves, but buy them from the manufacturers whose factory output they perhaps control. In other instances they actually own and operate plants. Some of the jobbers are themselves national advertisers and, of course, all of them push their brands as strongly as they can.

In some lines, like dry goods, silk, etc., some of the jobbers' private brands are older than most of the manufacturer's brands and the custom of mixed service and competition being well established, there is no particular restlessness on the part of the manufacturers or agitation for a change. In other lines, like the grocery, the jobbers' private label is a more recent arrival and there is widespread dissatisfaction on both sides. And each can make out a case.

The jobber in one of these latter lines says: "There is little enough margin of profit on the manufacturer's brand, anyway. By selling department stores, mail-order houses and retail chains and buying syndicates, which are rightfully a part of my field, the specialty manufacturer is depriving me of the most profitable trade there is in it. He leaves me only the little retailers whom it is too expensive for him to reach and only less so for me; and also the distribution of

bulk goods on which there is little or no profit. If I am to stay in business I must make a living profit. I can't do it unless I handle specialties under my own label."

The manufacturer on his part says: "That is doubtless true, but the situation is not of my creating. The jobbers started private branding and I had to go to the large buying units in self-defense, after I found my own brands being side-tracked."

The truth is that the jobbers see very clearly the tendency of trade-mark advertising to standardize products and so eventually to standardize the jobbing function just as it is standardizing production and retailing. They see in the growth of trade-mark advertising of manufacturers a menace to their independent initiative and they fight by every means in their power, the most effective of which naturally is trade-mark promotion of their own.

10. *Why manufacturers make private brands.*— The situation is still further confused by the fact that the trade-mark owners themselves sometimes assist the jobbers in supporting the latter's private brands. A manufacturer, for example, may overestimate his market and find himself with goods in his warehouse that he cannot sell. Rather than hold the surplus over until the following season, he offers them in bulk to a jobber, altho he knows the latter will brand them with his trade-mark and sell them in competition. The manufacturer, however, looks on this business as "velvet." He is interested only in protecting the

good-will in his brand and does not care how many other brands or bulk goods there are so long as his brand is not impaired. He does not look to the jobber to go out of his way to help him and he believes his advertising makes it difficult for the jobber to harm him.

Another manufacturer brands only goods of the best class. Instead of marketing his goods of second or third quality under a different brand, as some do, he sells them to a jobber, who promptly brands them with his own trade-mark. It is not of course true that jobber's private brands are all or most of this class. Many are of the highest quality.

There is a class of manufacturer who does nothing but make branded articles for jobbers or dealers, and has no trade-mark of his own. He may follow this policy because it happens to be a long established one, because he has been well treated by the jobber, because he has no ambition to control his own brands and business, because he does not know how to make a market or finance an independent venture, or, lastly, because he has no stomach for a fight with the jobber, which may be necessary at first when he breaks away and launches his own brand.

11. *Profit on private brands.*—The contention of jobbers and retailers that there is less profit on each sale of the average national or standard brand than there is on the average jobber's private and non-advertised competing brands is probably well taken. But, as the manufacturer points out, profits in the

aggregate are larger or may easily be if jobbers and retailers cooperate in nursing and satisfying the demand aroused by the advertising. The manufacturer reasons that someone must create the demand so that the goods may move quickly and be sold profitably. If the jobber or retailer will not do it, the manufacturer must. National advertising, he argues, creates or focuses a demand which results in easier sales, smaller selling expense, more rapid turnover of capital and hence larger aggregate profits to those who handle his goods than they would get if they had to bring the public to the buying point themselves.

12. *Dangers in making private brands.*—The trade-mark owner who sells any of his product for marketing under the private brand names of jobbers or retailers may under some conditions be sending out a boomerang. If the same goods are sold at one price under the manufacturer's label and at a lower one under the jobber's or dealer's brand the public, if it learns of the practice, will depreciate and avoid the manufacturer's goods. Courts and legislatures, knowing the practice, have been unwilling to sympathize with manufacturers who do it and yet ask for price protection. However illogical the attitude, it hurts the manufacturers' case.

If a manufacturer customarily sells his whole output to private brand dealers he places himself at their mercy and at any time the jobber refuses to renew the agreement may be left with a factory, expensive equipment and a big pay-roll on his hands, but no

sales force and no market. It was this very condition and the advantage which jobbers took of it to hammer down the manufacturers' prices that started the latter to trade-marking their goods for themselves and seeking the public's good-will, which, when, if given, rendered them independent of the jobber's power.

13. *Should all goods bear manufacturer's names?*—Attempts have been made at various times to obtain legislation that shall eliminate private brands by requiring the manufacturer's name to appear on every article manufactured by him, the assumption being that dealers will not care to admit they are not the manufacturers of the goods they market as their own.

It is doubtful if legislation would accomplish the result desired. It is known by many that the goods bearing retailers' and jobbers' brands are generally not made by them. Dealers are not practicing deception in using private brands; hence it does not injure them with the public to have it known that others make their goods. Fundamentally, the public's only interest in a brand is as a means of identifying goods of a given quality and so patronizing or else avoiding them. Anything else in the direction of improving the quality of them or protecting the public doubtless ought, if necessary to be done by legislation, to be done by outright prohibition or restriction rather than by a roundabout method like brand regulation.

14. *Summing up the case of the private brand.*—The manufacturer has no quarrel with the jobber who

comes out in the open and says that he is going to put his label on goods manufactured for him and therefore can serve no longer the manufacturers of lines which compete with his. Every jobber, if he so desires, may divide his functions between manufacturing and distribution provided he does so openly. The manufacturer's criticism is directed solely at the jobber who assumes to cooperate with one hand, so to say, and competes with the other. Whether fair or unfair, it is plain that the practice can only result in intensifying all the tendencies of which one or the other side complains and perhaps in creating new ones equally obnoxious. These tendencies, in a word, are for each element in the system to add other functions that previously have been performed by other elements. When the jobber becomes a private brand exploiter, the manufacturer sells direct to the department store. When the retail chain grows strong, it throws over the jobber and buys direct from a manufacturer.

Conditions like these foster the growth of large trade units and penalize the little ones. The logical issue would be a relatively few big concerns in each line, doing both a manufacturing and jobbing business or uniting for the less important or at any rate less complex matter of jobbing their goods to a comparatively few big retail units. This is the logical end, but such a system is not in harmony with American ideals and institutions, and as similar tendencies that have discovered themselves have been shut off by the

courts and Congress before reaching their full development, it is obvious that the present movement will sooner or later meet the same fate, providing the reversal shall not previously have come from within.

REVIEW

What are the more important services rendered to manufacturers by jobbers?

Do such services tend to increase the cost of products to the consumer?

Why do jobbers oftentimes sell goods under their own private brands, when it is evident that they are not manufacturers?

Wherein lies the danger to the manufacturer, who allows his entire output to be taken up by jobbers under their own private brands?

Do you think that jobbers and retailers, over a period of a year, make more profit out of handling private brand goods with a large profit than they would if they pushed nationally advertised goods, which pay a smaller per cent of profit per unit?

CHAPTER VII

WHOLESALE MIDDLEMEN

1. *Functions of other types of middlemen.*—Even if the manufacturer sells to jobbers, he will wish to do some supplementary work in the way of stimulating either the jobber's or the retail trade or both. For this some manufacturers maintain a more or less elaborate selling organization. Others, and not always the smaller manufacturers, prefer to depend on other classes of middlemen, hereafter described.

An excellent analysis of the service rendered by these intermediate agencies in selling is given by Dr. L. D. H. Weld, as follows:

> The services performed by commission houses, manufacturers' agents, and brokers can best be understood in a general way by reference to the marketing functions, which are as follows: assembling, or the seeking out of commodities from various sources, making business connections, etc.; storing or holding of goods at convenient points; financing, or the giving of credit, making loans and advances, etc.; assumption of risks from price fluctuation, deterioration, style changes, etc.; rearrangement, or the sorting, grading, and packing function; selling (which includes advertising); and transportation (the most important feature of which is the delivery service).
>
> It appears that intermediaries between manufacturers and jobbers perform but few of these functions. They rarely store commodities for their principals; they as-

sume but little risk, because they do not take title to the goods; they have practically no sorting and grading because they sell in large quantities and rarely handle the goods at all; and they do none of the transporting.

This leaves the actual selling of the goods, which is their most important function; financing, which is important in the textile trades, but not in the hardware and grocery trades; and assembling, which they perform by representing manufacturers who are often located in different parts of the country.

2. *Overlapping of functions.*—At one time each type of middleman had a fairly definite field of action and held closely to it. But more recently, for the same reasons that have produced the upheaval in the jobbing field, houses in each of these subsidiary classes have been reaching out into other fields and performing other than their original functions, without, however, changing their designations. These names have not, consequently, their former precise significance. Nevertheless, in order to make the situation clear, it is better to tell what these names and functions normally are, prefacing the description with a word of warning that they are much mixed and that the manufacturer who wishes help along one of the lines will save time by looking at once for the function and not the name.

3. *Manufacturer's selling agent.*—Some manufacturers market their entire product thru one or more sales agents. These agents sell on a commission basis. When more than one agent is employed, each is assigned a territory. Such manufacturer's agents

are common in the hardware trade where the production units are often small and a factory's output is frequently confined to a single kind of goods, as chisels, saws, hammers, etc. These circumstances give the selling agent a firm hold of the trade.

In other trades, as in textiles, where factory units may grow to much larger size, this form of selling often marks a transitional stage in the development of a factory. At the outset, the proprietors may feel that they should give their entire time to production, and that they have neither time nor capacity for creating and operating a sales organization. They resort to the selling agent, and until the factory has assumed a certain size and stability which enables them to turn from production to selling problems find it profitable to avail themselves of his service.

All factories do not grow beyond this condition. Many instances could be cited of large and well-established concerns which continue to depend on selling agencies to market their goods. This is true in such lines as hosiery, underwear and gloves, in which only a few large manufacturers have sales organizations of their own.

4. *What the sales agent does.*—The sales agent enters into a contract with the manufacturer. The contract determines specifically the scope of his authority. His dealings with his customers are binding on his principal as long as he acts within that restricted scope and sometimes beyond it, as when, for example, he does what is usual or customary in

the trade, and so to the customer's eyes acts within his apparent authority, even tho he may have been expressly forbidden to do the thing in question. Of course, in such a case, the agent is not any the less liable to his principal for any financial loss covered by the law of agency.

As a rule the sales agent is given no discretion as to fixing a price, but is guided in this particular by his principal's instructions. Usually he has authority to promise deliveries and to grant credits, according to the usages of the business.

5. *Classes of selling agents.*—There are two distinct classes of sales agents as well as minor variations. The first class consists of those who maintain warehouses, shipping accommodations and administrative departments. They carry complete stocks of the manufacturer's goods and ship as orders are received. They bill the goods and in some instances undertake the collection of accounts and guarantee payments. In short, they assume all the functions of a trader. Such an arrangement is well adapted to certain lines, such as dry goods and groceries, in which shipment to customers on short notice is essential.

The other and more numerous class of sales agents confine their activities to selling alone, the deliveries and collections being cared for by the manufacturer. They sell by sample, in most cases accepting orders subject to the approval of their principals. They are generally limited in the territory they cover to a state, county or city.

6. *The agent's compensation.*—The usual practice is to allow the selling agent a commission on the sales he makes. If the agent guarantees accounts, his commission is of course higher than when he does not assume this responsibility. The amount of commission differs in different lines of business. Whatever it is, it should be carefully specified in the contract. This contract should also make provision for the reimbursement of delivery charges, other selling expenses, advertising and any other outlays which the agent may be called upon to make.

Obviously the type and amount of the service which these agents render varies greatly. One selling agent in the hardware trade, for instance, represents forty manufacturers, and gives no two of them identical service. For some, he is a warehousing sales agent, while for others he stocks no goods. Sometimes he handles a line in only a part of the territory. Sometimes he collects accounts, in other cases guarantees them. He prides himself on being able to serve any manufacturer in the way the latter wishes to be served.

7. *Mill agents.*—The factory or mill agent is not an agent at all, in the strict sense of the term. He is a principal, who purchases outright the entire output of a factory or mill. A jobber in the same lines buys only a portion of such output. Commission merchants often take charge of selling the entire product of a mill, but do not themselves make any investment in the goods.

The manufacturer finds such an arrangement ad-

vantageous because it gives him a convenient outlet for everything he produces, and takes all selling problems off his hands. To be sure he has no subsequent control over his product in its course to the ultimate consumer. It is sold in advance, frequently far in advance, and the manufacturer does not get the benefit of favorable market fluctuations. On the other hand, he suffers no loss on unfavorable fluctuations.

8. *Factors, commission merchants and brokers.*— The law describes a factor as one who receives goods from another for sale, who sells these goods in his own name, collects payments and remits the proceeds to the principal. In business, such an agent is usually called a commission merchant. The legal term, factor, is retained in some lines of business and is interchangeable with commission merchants. The law makes distinction between factors and brokers. The latter do not have possession of the goods they sell, and do not collect the amounts due upon the sales they effect.

Trade usage takes little account of these legal distinctions. It continues to call a man a commission merchant, even tho he never sees the goods he sells, sometimes even when he does not sell the goods, but merely collects on behalf of the principal. Again, men designated in trade as brokers sometimes carry stocks of goods, sometimes bill in their own name, and sometimes collect for the principal. As has been pointed out, a name has ceased to signify a well-defined service.

9. *Functions of the commission merchant.*—The primary normal function of the commission merchant is to sell the goods of another, receiving as compensation for this service a commission on the selling price. Out of this primary function, there sometimes grows a subsidary function of acting as banker for the principal. This second service is sometimes given alone. Let us first consider selling.

10. *Necessity for the commission merchant.*—For certain lines of raw and intermediate products, it is not easy for the producers to find a market independently. The centers of demand are scattered and prices fluctuate from day to day, even from hour to hour. Out of the need for centralized service in these lines has developed a type of wholesale middleman who receives consignments of goods from producers and sells them as agent. His knowledge of the market and its prices enables him, as a rule, to make better deals than his principal could. This man is the commission merchant.

The lines in which commission merchants are most commonly employed include textiles, grains, cotton and chemicals. Formerly, a large percentage of farm produce was handled in this way but, during recent years, commission men have not been able to get enough farm produce on consignment to supply their regular trade, and so have been forced to go out and buy like any regular jobber.

Even in the four lines mentioned, commission merchants are coming to have connections outside of their

regular business. Many white goods commission houses trade to some extent on their own account. In the chemical business, most of the foreign manufacturers sell thru American commission houses, but many of the latter own their own chemical factories and their own warehouses. There are few grain or textile commission men who have not a connection with elevators or warehouses.

11. *Activities and compensation of commission merchants.*—Some commission merchants guarantee collections on their sales, and are known as *del credere* commission merchants.

Unless there is a special allowance for brokerage, the commission man pays all selling costs out of his commission, but such expenses as storage, handling, and insurance of the goods while in his possession are charged to the principal for whom he acts. He makes collections and fixes terms and prices within the limits of his instructions. In all cases, he is bound to obey instructions and, like any other agent, is liable for any damages suffered from his failure to do so. He can depart from such instructions only to protect himself from loss on his own advances or disbursements, or to meet some other emergency.

12. *Commission merchants and manufacturer's agent.*—The commission merchant differs from the manufacturer's selling agent both in his legal status and in his method of accounting. The manufacturer's agent is, as his name indicates, a sales agent, working under the direct orders of his principal. The manu-

facturer dictates classes and terms of credit and fixes prices. Within the scope of his agency, the agent binds the manufacturer absolutely, but does not assume any individual liability. Goods shipped to him on consignment remain the property of the manufacturer, who must bear all risks.

The commission merchant, on the other hand, is more independent. Altho the consignments which he receives are not his property, nevertheless, thru force of custom, he provides for storage and insurance, is usually given wide range in fixing prices and terms, and is responsible for the payment of customers' accounts.

13. *Commission contracts.*—Many commission houses are well established, and their methods of operation are well known to the trade. In order, however, to avoid misunderstandings, it is always desirable for the manufacturer and the commission merchant to enter into a definite and formal contract. Such a contract will specify the rates of commission to be charged, regulate transportation charges, storage charges, cartage, insurance, repacking and handling, and determine prices and terms of sales, terms of settlement, the guarantee of accounts when that is given, and similar matters.

14. *Rates of commission.*—Rates of commission necessarily vary greatly with different lines of business and even with different houses in the same line. The points that enter into the calculation are the prestige of the house, whether the accounts are to be

guaranteed, whether an allowance is to be made for brokerage, and whether the commission house must assume all storage and handling charges. Five per cent is a common rate of commission for chemicals; as much as ten per cent is sometimes paid in certain textile lines. When brokerage is allowed for expenses, the commission is generally only two or three per cent because, in such a case, it constitutes clear profit. Extra allowance is granted for storing, insuring and otherwise caring for the goods from the time they are shipped until the time they are delivered to the retailer or consumer. This allowance may be no small item, and often equals the commission charge.

15. *How the commission merchant aids the manufacturer.*—When a manufacturer deals thru jobbers he is frequently under the necessity of giving them a considerable extension of credit, and in this way may be said to finance the jobber. When he deals thru a commission house, it is often because he desires the latter to finance him. The manufacturer may not have sufficient capital of his own to do business on the scale he desires and cannot look to the commercial banks for more than short time accommodation. The commission merchant, on the other hand, will not only sell his goods, but also in order to get the goods in quantity at a desirable price, may be willing to advance him the capital necessary to develop his business. When such an arrangement is made the commission man's interest in his client and supervision over the

latter's affairs is often very intimate. He will frequently dominate the manufacturing policy and become almost a partner in the operations of the factory.

16. *Loans and advances.*—The terms for the arrangement between the manufacturer and the commission merchant will vary with circumstances. Generally the commission man agrees to a standing loan on which interest is charged, the security for the loan being the client's tangible assets. There may be also an agreement for cash advances upon sales made. On completion of the sale the commission merchant will advance from 60 to 80 per cent of the amount of the sale. When the customer's remittance is received, the commission merchant deducts the amount of the advance made on that particular bill and a commission for use of money and service rendered. The balance is turned over to the client.

17. *The banking function.*—An interesting variation of the commission merchant's service obtains when the function of guaranteeing and collecting accounts becomes entirely dissociated from that of selling. In some cases the manufacturer does the selling and the commission house acts as credit and collection manager. Orders on credit are submitted to the commission house, and if approved by the latter the goods are shipped by the manufacturer. The goods are billed thru the commission house, which makes all collections. In the meantime the commission merchant advances to the manufacturer an agreed percentage of the selling price of the goods. The name

given to a house in the textile line which does business on this basis exclusively is factor.

It is clear that this function, tho incident to the sale of goods, is, strictly speaking, a banking transaction. Cases occur in which this work is actually done thru banking firms.

18. *The broker.*—Still another type of middleman remains to be considered, the merchandise broker. There are two main differences between the broker and the commission merchant. The broker usually does not have possession of the merchandise, and he deals in the name of his principal; the commission merchant, on the contrary, usually does have possession of the property under a consignment title, and deals in his own name in all cases. The commission merchant uses a regular bill of sale on which his own name appears; the broker gives a memorandum of the transaction, while his principal usually does the actual billing, and pays him on a periodical, usually weekly, accounting. When commission houses use the drop shipment system extensively, and carry little or no stock, the distinction between them and brokers becomes very slight.

19. *Extent of merchandise brokerage.*—Brokers are most commonly found in lines such as fruits, coffee and other food products, both bulk and packaged. Merchandise brokerage seems to be on the increase where it performs a legitimate service in selling and is not merely a parasitical development. When the broker, as is frequently the case, handles the entire

output of a factory, he is scarcely distinguishable from a selling agent. Most brokers are individuals operating on their own account. Their stock in trade is their knowledge of the market, prices, and personal acquaintance with old factors. The broker is virtually a manufacturer's salesman working unsupervised on commission.

As a rule, a broker operates in a much larger field and closer to the firing line than any other form of middleman principal and, for this reason, is in a better position to make a general survey of the market. He can, therefore, often get better prices and make better deals for his principal by selling sometimes to jobbers and sometimes to retailers.

20. *Broker's contract.*—Usually, no formal contract between manufacturer and merchandise broker is drawn up, since it is understood that the broker acts as an agent for and in the name of the principal and responsibility is limited to a given quantity of goods, or period of time. Ordinarily the broker has no authority to receive payment for property sold by him, and if payment is made to him by the purchaser, it is at the purchaser's risk, unless for special reasons authority to receive such payment has been given. The principal fixes all terms and prices, and makes all collections.

21. *Broker's commission.*—The broker's compensation depends on the line of trade and his service. Many brokers specialize in certain lines of merchandise and do not handle other lines. In many cases the

compensation is based on a flat rate per case or other unit; in other cases a commission is paid. The variations in the same trade are often wide. The usual brokerage on bulk olives, for example, is 1½ per cent and on bottled olives 5 per cent.

22. *Broker's organization and operating method.* —In a typical merchandise brokerage organization there is a broker for each principal line and a few clerks and bookkeepers to keep track of the commissions. Some of the most successful brokers operate alone and do not have even desk-room. They go back and forth for jobbing houses between the manufacturers and the buyers, looking for good lots to offer and likewise good purchase needs to satisfy. When a buyer authorizes a broker to bid prices to a manufacturer, the broker does so at once by telephone or telegraph. If the manufacturer accepts the bid, the broker makes out a memorandum of sales as an agent and then a claim for commission. Once this is done, he has no further connection with the transaction. But he is not sure of his commission until the goods are actually delivered and paid for, cancelations being frequent. Doubtless by going to law he would be able to collect his commission if he has received a bona-fide order, but few brokers feel that it is wise to do so, as this would offend the manufacturer and cut off a source of future business from the broker. They take these disappointments as part of the business.

REVIEW

In what respects does the selling agent differ from the mill agent? When will a manufacturer find it advantageous to employ a selling agent?

Make a similar distinction between the commission merchant and the broker. Under what circumstances are these two classes of middlemen almost identical?

What financial relation often exists between the manufacturer and his commission merchant?

Are the numbers of middlemen, such as commission merchants, factors and brokers, increasing? Do they serve a necessary and valuable service?

CHAPTER VIII

SELLING TO THE RETAILER

1. *Retailer's problems affect the manufacturer.*—It is the retailer in the fields under survey who is closest to the manufacturer's real market of ultimate consumers. If the retailer is a good merchant, the manufacturer's goods move fast and his profits accordingly. If the retailer is a poor tradesman, the channel to the public becomes choked. It is one of the manufacturer's greatest problems to find how to cooperate with the retailer so that they both may give better service, and increase their business. When there is a lack of cooperation, the interests of both suffer.

2. *Channels thru which retailer is reached.*—The manufacturer sells to the retailer either directly, or thru the agency of another middleman. Each method has its advantages and disadvantages and neither can be made to fit all cases.

3. *Need for warehouses in direct selling.*—In selling direct to the retailer the manufacturer must naturally be prepared to perform the necessary jobbing functions. He must, for example, provide branch warehouses in the various territories from which dealers' stocks may from time to time be replenished,

because, in the United States, distances are so great from factory to points of distribution that, as a rule, too much time would elapse in filling orders direct from the factory.

4. *Difficulties in keeping complete stocks.*—While the manufacturer can render very satisfactory service in certain lines of business, the nature of other lines makes it impossible for him to do it as efficiently as does the jobber. Take, for example, the matter of stocking the neighborhood grocery. On its shelves are found upwards of 300 or 400 different brands and kinds of goods made by almost as many different manufacturers. The goods are supplied by some three or four jobbers. Now, imagine these jobbers suddenly eliminated. What would be the plight of the retailer? How can he keep up his stocks? He can no longer give a lump order of odds and ends to the jobber's salesmen. He must order each item direct from the manufacturer who produces it. He must see a representative of each manufacturer or write a letter about it. The demand on his time for doing this would be so great that he would have little time for selling. It can only be avoided by an elaborate and expensive system of stock records and purchasing procedure.

The average dealer is not well informed as to the relative selling merits of competitive lines. The jobber has the information and is enabled to advise the retailer and assist him in keeping a carefully selected and well-balanced stock. It is too much to expect

that the salesman of a manufacturer would advise a retailer to stock a competitor's goods as being of higher quality than his own. The dealer would have to find out for himself.

5. *Expensive to handle small orders.*—In many lines it does not pay a manufacturer to solicit small orders. The salesman's time is too valuable to admit of his covering every corner of his territory and the expense of doing so is out of all proportion to the business to be obtained. Nor does it help much if the retailer sends his orders by mail, unsolicited or solicited, if they are still small, because in handling, rehandling, boxing, carting, checking, and billing, all of the small profit may leak away.

In buying direct, a dealer would either have to look ahead and exercise more foresight in anticipating his needs than the average retailer does, or else purchase in large quantities and pay cash, or cash in ten days, which again, is foreign to the average retailer's experience and inclination or ability. Moreover, if he bought in larger quantity for the same volume of demand, he naturally could turn the larger capital investment less frequently and his returns on the capital would be proportionately less. In other words, he would actually tend to become less successful, which would certainly not be to the manufacturer's interest.

6. *Credit arrangements difficult.*—A merchant who shows ability can usually get part of his stock from a jobber on "easy" time and also depend on the jobber to help him over the rough spots by emergency exten-

sions of credit. This is not a question of philanthropy but of good business, since the man is a good customer. Many jobbers are glad to have their retailers tied up to them in this manner since the retailers will confine their purchases as much as possible to them. On the contrary, most manufacturers are not in a position to carry many accounts. They wish to get their money as soon as possible and without loss. It would be a difficult matter for them to furnish credit facilities. The additional clerical expense entailed in keeping track of credit arrangements with a large number of accounts is another reason why direct dealing between manufacturer and retailer in many lines is rather difficult or impossible.

7. *Why the manufacturer sells direct.*—There is, nevertheless, in other lines a constantly increasing number of manufacturers who have dispensed with the jobbers' service and now sell direct. This is due to a number of reasons which will now be discussed.

8. *Jobber unable to give exclusive attention.*—With the constant increase in the number of articles a jobber must handle, has come a corresponding increase in the number of lines. The recent catalog of a wholesale grocer contains over 6000 items, divided among 724 different kinds of goods. On the list were no less than 102 brands of coffee, 30 different kinds of coffee substitutes, 84 makes of canned beans and 75 kinds of cigars. The amount of real salesmanship that can be given to any one of these lines is obviously limited. It is impossible for the jobber's sales-

men to become acquainted with the merits of more than a few lines. The manufacturer who wants his goods "pushed" by jobber's salesmen is asking the impossible except under exceptional circumstances which, as previously noted, he must himself provide.

9. *Jobber indifferent to manufacturer's advertising.*—The national advertiser generally takes the stand that since he is aiding the jobber by creating consumer demand, therefore the jobber should "get behind him." The jobber retorts that he cannot push the line of one manufacturer without being unfair to the others. He says further: "I tell the dealer here are many different kinds of goods. They are all good, or I should not be handling them. Take your choice." The national advertiser does not regard this as a satisfactory answer. His own idea is that the advertising entitles him to preferential treatment.

Some jobbers, as previously said, are openly hostile to manufacturers' national advertising. They contend that the profits on advertised goods are too small; that the manufacturers' advertising makes jobbing a mere machine; and that the consumer demand for advertised goods lessens the jobber's influence among retailers. Unless the total profit secured from the handling of advertised goods really is too low, the attitude is illogical. As a consequence, some manufacturers prefer to find their own markets rather than to spend time and money in what they regard as the impossible task of "lining up."

10. *Manufacturer checks up advertising.*—The ad-

vertising manufacturer must know where his goods are consumed in order to direct intelligently both his advertising and his sales campaigns. But jobbers can give him little or no help in this. A specialty manufacturer may be selling seventy-five Chicago grocery jobbers. They sell not only in Chicago but over a wide surrounding territory and he cannot tell from their total sales whether his goods are evenly distributed or only in spots. His figures may show a steady gain, but for all he knows Chicago itself may have been falling off. Suppose he suspects that that is the case and meditates an advertising drive in the Chicago newspapers. He wishes first, however, to be sure of the fact. The jobbers have no records to show him. They can only guess. It will cost a good deal of time and money to get much in the way of statistics from the retailers. He has to content himself with a score or two of interviews and guesses.

In the last analysis the manufacturer who sells only thru jobbers does not know where his goods are consumed. Unless the jobbers show a willingness to keep complete records of all their shipments to the retailers and supply this information to the manufacturer, the latter is greatly handicapped in making any appropriations for advertising. This is one, tho not the sole reason why a grocery manufacturer may prefer to deal direct with the retailers in thickly settled sections like those around New York, in New England and Chicago. He could not carry the accounts of all the grocers in the country and even those of the met-

ropolitan area are more or less of a nuisance, but he is in touch with these important markets and that is something.

11. *Jobbers cut the price.*—Many manufacturers wished to name prices at which jobbers shall sell goods, but this measure did not meet with general support on the part of the jobbers even before the policy of enforced price maintenance was construed by the Supreme Court as unlawful. The jobbers' practice of cutting prices is unquestionably one of those which has led to the disorganization of the field. The jobbers by cutting prices have helped to build up the retail chains. When they had done so, the chains turned around and bought direct from the manufacturers, thus weakening the jobbers and forcing them in their fight for existence to develop still more their private brands. The strong chains have now entered into manufacturing and the only hope of the little independent retailers in the lines where this condition prevails must lie in the jobbers and manufacturers again coming together. But the signs at this time are all the other way.

12. *Selling direct.*—Certain classes of goods are best sold thru exclusive agencies, one dealer to a town. The large sales made by one dealer with an exclusive agency make it more profitable for the manufacturer to ship to him direct than to ship thru the jobber in that territory. Moreover, direct selling enables the manufacturer to keep in closer touch with his product.

13. *Complete lines now handled by manufacturers.*

—The policy followed by some manufacturers in making complete lines or "families" of products has also tended to lessen the importance of the jobber. This policy, which is rapidly growing, enables dealers to obtain a large part or all of their stock direct from one manufacturer, if they wish to do so. Under this method, the sales to retailers may be large enough to justify a manufacturer in maintaining a force of traveling salesmen.

Both the National Biscuit Company and the Loose Wiles Company sell dealers a complete stock of crackers and cakes in package form and in boxes.

14. *Nature of commodities may demand direct selling.*—Goods whose selling value changes rapidly, like perishable goods or some of those with a style or fashion element, must be marketed quickly or the manufacturers will incur a loss. In order to guard against having their products spoil, some manufacturers have established their own distributing stations so that they may know the exact condition in which their goods reach the retailer. These manufacturers also try to get the retailers to buy from them frequently and in small quantities so that the goods may always be fresh. The large packing houses supply refrigerating facilities which some dealers lack.

It must not be supposed, however, that jobbers do not handle spoilable goods. Kellogg's Toasted Corn Flakes is a notable example of a product which has always been marketed thru the jobber. The Kellogg Company, however, makes a practice of overhauling

dealers' stocks at intervals and replacing all old stock with new goods.

15. *Dense population aids selling direct.*—The growing density of population is, as before pointed out, another reason for direct selling. With a widely scattered population and dealers few and far between the manufacturer did not care to undertake to sell direct to retailers because he feared the cost. The jobber was his most economical medium of distribution. With the growth of cities providing greater possibilities for large markets, manufacturers have often found it an economy to maintain local warehouses and send their salesmen direct to retailers.

REVIEW

How has the jobber forced the manufacturer to open up direct relations with the retailer?

Under what circumstances do manufacturers find it advantageous to deal directly with retailers?

Why do small retailers, for instance, grocers, ordinarily prefer to deal thru the local jobber?

Why do manufacturers of clothes usually sell direct?

CHAPTER IX

SELLING THRU EXCLUSIVE AGENCIES

1. *Choice of means.*—One of the most important problems confronting the manufacturer who intends to make use of the existing trade channels is, whether he shall sell his goods (1) thru one exclusive agency in a community; (2) thru a few carefully selected dealers in each city on a limited agency system; or (3) thru any dealers in a community who may be willing to handle his product. This chapter deals with the advantages and disadvantages of exclusive agencies from the point of view of both dealer and manufacturer. It should be pointed out, by way of preface, that the exclusive agency system is not adapted to the sale of rapid-repeating necessaries and that in large cities the territorial unit is a district or neighborhood.

2. *Legal questions involved.*—In one kind of exclusive agency, the manufacturer and dealer enter into an agreement which binds the manufacturer not to sell thru any other dealer in the community, and binds the dealer to give his best attention to the manufacturer's goods. In another kind of exclusive agency there is a further agreement on the part of the dealer that he will not handle any competing line of goods. There is no legal objection to the first kind of agency.

No one can take from the manufacturer the right to select his customers and sell only to those to whom he wants to sell. With respect to the second kind of exclusive agency, however, there is some question. The Clayton Anti-Trust Law, passed in 1914, contained this clause:

> It shall be unlawful for any person . . . to lease or make a sale or contract for sale of goods . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale, or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

This clause does not definitely prohibit the agreements mentioned; it only prohibits them when the effect "may be to substantially lessen competition, etc." Just when this may be, no one knows. Each situation as it arises must be decided on its own merits. The wording of the law suggests a certain public attitude toward so-called binding or tying contracts which the manufacturer may well bear in mind.

3. *Interests of the dealers and manufacturers.*— In deciding whether or not to sell thru exclusive agencies the manufacturer too often considers his own point of view alone. He fails to consider the attitude of the dealer. The arguments for and against exclusive agencies from the standpoint of the dealer and from that of the manufacturer merge; no definite line can be drawn between them.

4. *Why retailers like exclusive agencies.*—Many retailers favor exclusive agencies and have forced manufacturers against their will to grant them. Among the advantages which an exclusive agency gives to a retailer are price maintenance, the benefit of advertising, prestige, new trade and a close relation with the manufacturer.

5. *Prices maintained.*—When only one dealer in a community handles a certain line, there is no cut-price competition in it. So disastrous has been the price slashing on many nationally advertised goods that many dealers refuse to handle them at all unless they can have the exclusive sale, and so make sure of a living profit. This is particularly true of the drug business. Cut-throat competition resulting in price-cutting is the rule in this business in many cities; the average druggist, therefore, eagerly accepts an exclusive agency for a line for which there will be a real consumer demand.

6. *Benefits of advertising.*—When a dealer has the exclusive sale of a well-known line, he knows that he alone among the dealers in his neighborhood will reap the harvest of the advertising. This is agreeable to him, because he does not care to build business for the "other fellow." The same reason often induces him to push his own private brands instead of the nationally advertised goods that are found also in all his competitors' stores. If he can have the exclusive sale of a well-known line, he feels that as far as his town or neighborhood is concerned, that line becomes his

own exclusive brand. Furthermore, the dealer who has an exclusive agency for an article can take the fullest advantage of the manufacturer's advertising of it. The local advertisements that appear may carry his name. The national advertisements may be linked up with his store exclusively, by window display, by the dealer's own local advertising and by a variety of other methods. Because only the exclusive agent gets the benefit of the manufacturer's activities, he experiences the increased ease of selling, the rapid turnover, and the lowered selling expense that are characteristic of all well-advertised lines.

7. *Prestige.*—Exclusive agency for a standard article gives prestige to a store. A merchant likes to handle a well-known line of clothing, shoes, pianos, or filing cabinets. It permits the featuring of something exclusive in the store's advertising and window displays. Inasmuch as the constant effort of the dealer is to give distinction to his establishment, the exclusive agency idea appeals strongly to him.

8. *New trade.*—Exclusive agency for one article will bring to a store people who would not otherwise trade there. A man may habitually buy his cravats, collars, and underwear at one store, and shop around for his outer clothing; and yet if some one clothing store manages to attract him with its offering of nationally advertised brands it has a good chance to win his permanent patronage in the other lines also.

9. *Close relations with manufacturer.*—The dealer having an exclusive agency usually feels that the

manufacturer gives more careful attention to his orders, complaints and suggestions and in general values his services more than if the manufacturer had other dealers in the community.

10. *Opposition of dealers.*—Despite the desire of many dealers for exclusive lines, the exclusive agency has its critics in the retail trade. The objections are two. One is directed against abuses of the arrangement. The other attacks the whole idea.

11. *Abuse of the exclusive agency idea.*—When a retailer admits that the exclusive agency is all right in principle but will not accept it in any given case, it is usually because he lacks confidence in the manufacturers. The exclusive agency is sometimes used by a manufacturer to introduce his goods into a community and when a demand for these has been created the sales privilege is extended to others. The original dealer does not lose the right to sell the goods, but he loses the exclusive right. Many dealers believe that this injures them—they spend time, effort and money to build up a reputation for the brand, and then a large part of the fruits of that work go to others. And they lose the prestige of being exclusive agents in their communities.

Not all manufacturers, by any means, use the exclusive agency idea simply as an introductory measure. For instance, Dunlap hats have been sold strictly on the exclusive agency basis for over sixty years. Many other manufacturers, too, have consistently and continually followed the same practice.

Nevertheless, the practice of "breaking into the market" thru exclusive agencies, only to abandon the plan when a demand has been established, is common with manufacturers.

12. *Manufacturer's position.*—Manufacturers who have done this say it does not hurt the original dealer and that many dealers admit it. Brill Brothers, who for some years had the exclusive right to sell Holeproof Hosiery in New York City, reported an actual increase in Holeproof sales after 140 other dealers in the city were given the right to handle the goods. The Mark Cross leather company, originally operating on an exclusive agency basis, found that its line was growing too large and too varied for one dealer in a town to carry, and in many communities began to sell to several stores. Almost without exception the former exclusive agencies reported increased sales after this change. The explanation, of course, is that the sales and advertising power of a number of stores shows greater results when combined on one brand than when spread over several and that similarly each store shows greater results.

13. *Are exclusive agencies taken away?*—It is also charged that frequently manufacturers transfer agencies from one dealer to another, and in other cases threaten to do so, using such threat as a means of inducing dealers to stock more goods than they would otherwise be willing to purchase, or to exert unusual sale effort. Rather than run the risk of losing part of his business, or being subjected to possible bullying

on the part of the manufacturer, the dealer may prefer to use his time and effort in favor of a private brand which cannot be taken away from him.

The fear of the dealers is, however, not well grounded, since few manufacturers have been guilty of the practice charged. There is little danger of a dealer losing his agency if he lives up to his agreement. If he does not do his share, if he dabbles in many competing lines and if he does not really put himself strongly behind the goods for which he has accepted the exclusive agency, he should expect to lose it; but even then it is by no means certain that he will do so, since most manufacturers would rather suffer inconvenience and loss of sale in individual instances, than take drastic action, when such action might present itself to the trade in an unfavorable light and cost the manufacturer many times the original loss. The far-sighted manufacturer will not quarrel with his agents unless a quarrel is forced upon him, because he has too much at stake.

14. *Does the exclusive agency discourage competition?*—Sometimes a dealer opposes the agency idea because he thinks it is fundamentally wrong. In the latter case he usually argues as follows: A retailer must meet competition. When people ask for goods, it is his business to supply them. The exclusive agency idea makes it impossible for any one dealer in a community to satisfy all the demands in his line. Furthermore, the inability of a dealer to sell something requested leads him to substitute something else.

When one dealer actively pushes a line for which he is the exclusive agent, his competitors will find something similar to push just as hard. This limits the total sales of the line handled by the exclusive agent.

The exclusive agent can seldom get as large a volume of sales on a given article as he might if all dealers in a town carried it. The manager of Brill Brothers, New York, illustrates this point in an article in Printers' Ink:

> If we alone after hammering Holeproof Hosiery as hard as we possibly could for four or five years had been able to build up the Holeproof business in New York, which we were doing, it was reasonable to suppose that 100 or 150 energetic retailers plugging and pushing Holeproof Hosiery would surely produce better and quicker results than one dealer pushing the product and the other 99 or 149 pounding it because they did not carry it. It simply meant a choice between having 150 stores in New York in which a man or woman could be told the merits of Holeproof Hosiery, or only one store; one store pushing Holeproof and every other store with something "just as good."

15. *Why manufacturers favor exclusive agencies.* —Some manufacturers, as has been pointed out, grant exclusive agencies because retailers demand it; others, because they believe it is the best way to sell their goods. The single connection is generally held to be most desirable where the article or line to be distributed is a "shopping line," that is, one that is purchased only after comparisons made in several stores; where the size of the stock calls for a considerable investment on the part of the local merchant; where

the article or the line needs more sales attention than would be given without special inducement as, for example, an account of its technical nature; where special service is needed to install it or put it into effective operation; where price maintenance is indispensable; where it is difficult to introduce the article or line to the trade in general; and where it is not ready for advertising or there is no money to advertise it.

16. *Shopping lines.*—If goods are of such a nature that consumers will look for them in several stores, exclusive agency may be a good thing. This is true either of goods in which the style element plays a large part (clothing, hats and shoes, for example), or of goods that represent a large outlay of money (automobiles, talking machines, farm machinery). When people can be expected to give much thought to a purchase and to look carefully into the merits of each possible line, there are many obvious advantages in the exclusive agency method of distribution.

17. *Large or expensive stock.*—A merchant will not be expected to make any considerable and exclusive investment in any one manufacturer's product unless he is protected against competition, or given some other special inducement. The manufacturers of such product as pianos, automobiles, farm machinery, boots and shoes, are therefore practically restricted to either exclusive agencies or to their own branches, the former involving less capital and being more economical, except in the cases of very large distributors.

18. *When more sales attention is needed.*—When the public must be educated to the value of an article, no one dealer can be expected to put much time upon it unless there is some assurance that he get all the business he creates. Typewriters, metal furniture, heating appliances, and automobiles are all sold thru exclusive agencies, not only because large stocks are necessary, but also because a large investment of time, thought and effort is called for.

Another class of articles is often sold on an exclusive agency or a limited agency basis in order to assure such rapid sales as will maintain quality. Huyler's and Whitman's candies, for instance, are sold in this way. The manufacturers realize that the candy must be fresh when it reaches the consumer, and there could be no certainty that it would be fresh if all dealers in a city were allowed to handle it indiscriminately, and no one representative dealer in a neighborhood had any special inducement to cooperate with the manufacturers in this regard.

19. *Installation, operation, service.*—Articles that have to be installed or set up, like ranges, furnaces, boilers and expensive fixtures or repaired, like automobiles, are generally sold either thru the branch or the single agency connection. Obviously no retailer would take the time to acquaint himself with all the details of construction, installation, operation and repair unless he were guaranteed some business, nor actively push it unless he was guaranteed all of it in his community.

20. *Control of price.*—The exclusive agency is one of the best ways of controlling the re-sale price. Selling to only one dealer in a community means entire freedom from the troubles that come to an advertised line of goods when competing dealers use it as a price leader.

21. *Value in introducing goods.*—The exclusive agency method sometimes appears to be the only possible way of opening new territory. Dealers are generally averse to taking on an untried line; often the only way of getting any distribution at all is to offer an exclusive agency to one dealer in a community.

22. *Unadvertised goods.*—An exclusive agency is the logical way, in many cases, to sell unadvertised goods, because it enlists the strong selling activity of at least one dealer in a community. Ordinarily the dealer prefers a nationally well-known, advertised line which will bring prestige to his store, but his reluctance may be overcome in various ways. A larger profit than he can get on some other line may prove attractive, if he thinks he can sell the line. The line may be well put up and give promise of success. He may carry it for a year or so without advertising on the promise or with the understanding that advertising is to run as soon as a satisfactory distribution has been obtained. Lastly, all the leading lines of a kind may be distributed thru agencies and other live dealers may be glad of a chance to have an individual line of their own, even if not advertised at the time.

23. *Dealers give active support.*—It is much easier

to get the active support of one dealer who has an exclusive agency than to get the active support of all dealers when all handle the line. The exclusive agent is glad to get and to use window displays, store signs, and other forms of advertising matter. Furthermore, the manufacturer can keep in close touch with the exclusive agent and render him real sales service of a personal nature.

24. *When manufacturers oppose the idea.*—The majority of manufacturers, however, find that general distribution produces larger volume of sales than restricted distribution. As we have seen, this is unquestionably true in many lines. Convenience goods should be distributed as widely as possible. This includes many small articles in the grocery line, drygoods, men's clothing, druggests' sundries, toilet articles, shelf hardware, tobacco, etc. It is not conceivable, for instance, that Campbell's soups could maintain their present large sales on an exclusive agency basis. As it has been put, "exclusive articles require an exclusive agency, and an article of general use, with nothing exclusive in its nature of appeal, requires general distribution; an exclusive agency for an article of general demand is a very expensive thing for the manufacturer, because it invites substitution."

Since the object of advertising goods is to get them out of the unknown, little known or "shopping" class and make of them, if not always strictly "convenience" goods, yet goods whose convenience qualities

shall be thoroly known and appreciated, such advertised goods should obviously have as wide a distribution as practicable. Extensive advertising of convenience goods will be largely wasted if consumers cannot readily find stores that carry the articles.

25. *Desire for greater sales.*—Most manufacturers, and many dealers, believe that an article that is backed by the united selling effort of a large number of dealers, or even passively offered for sale by them, will show a larger volume of sales than if it were in only one store, despite the activity of the one dealer in its behalf.

26. *Do exclusive agents always push goods?*—The selection of agencies is a matter of the first importance. If the manufacturer is in a position to do so, he should make careful inquiries as to the ability and reliability of the connections he proposes. Some manufacturers send out their sales managers or most experienced salesmen to open agencies in the larger communities and accept their recommendations only after it is evident that a thoro local investigation has been made. Everything depends, of course, upon the character of the agency, the amount of business to be obtained and the importance that the connections may assume.

27. *Extent of exclusive agencies.*—Hardware dealers are generally glad to accept exclusive agencies, even tho they know that most of the agencies will be extended as soon as a demand for the goods has been created, but few hardware manufacturers grant

agencies of this sort. In the grocery line, the exclusive agency is seldom found. Buyers do not shop from one grocery store to another; an article must be in the customary trading place, or it is not purchased. Among drug stores there are many exclusive agencies, ranging from the exclusive agency for a single tooth powder to one for a complete line like that of the New York and London Drug Company (Nyal Goods). In men's clothing, the exclusive agency is often the logical thing, because men will go out of their way to find an advertised article that has caught their fancy. Exclusive agencies are becoming more common in the furniture business, altho in this business manufacturer's brands have until recently been comparatively little used.

28. *Dealers versus manufacturers.*—With many exceptions, it may be stated that retailers generally are inclined to favor exclusive agencies, while manufacturers are inclined to refuse them. The advantages seem to be more on the dealer's side than on the manufacturer's. The tendency is away from exclusive agencies. The increasing use of national advertising is bringing manufacturers to realize the advantages of the widespread distribution which enables readers to find advertised goods easily. The growing interest of dealers in advertised goods is leading them to recognize that general selling effort behind a line means maximum demand for it and maximum sales for everybody.

REVIEW

What legal limitation is put upon agreements which may be made between manufacturers and exclusive agents?

What kinds of goods may be distributed most successfully thru exclusive agencies?

What is your opinion as to the advantages or disadvantages of the exclusive agency? Can you defend your opinion?

Should a manufacturer use the exclusive agency to introduce new goods into the market, and then abandon the plan when a sufficient demand has been established?

CHAPTER X

INFLUENCING RETAIL SALES

1. *What national advertising is.*—There is probably no more effective way for a manufacturer to help the retailer "move" his goods than thru national advertising. No other method or auxiliary of selling has developed faster and none gives greater promise of continued development.

By "national advertising" is meant advertising in a national as distinguished from a local way. The purpose, direct or indirect, is to provide a demand for the advertiser's goods, which may be sold thru stores, agencies or by mail. National advertisers are nearly all producers, tho some are jobbers and a few, like the large mail-order houses, are retailers. For this reason most of the goods advertised are trade-marked or "national" brands, so called to discriminate them from the private brands of jobber and retailer which have only sectional or local distribution. Most national advertising is done thru the magazines of national circulation, but the claims of some of the newspapers of New York City, the outdoor advertising there, particularly the electric signs of the "Great White Way," as well as the outdoor advertising at Atlantic City to be, in effect, "national mediums,"

can not be denied. They have far more than a local "circulation." People resort to New York and Atlantic City from all over the country and carry back the impressions made by the advertiser's messages. The same is true to a different extent of other large centers.

2. *Manufacturers' claims for national advertising.*—Manufacturers who are national advertisers and sell thru dealers expect "dealer cooperation." They contend that in selling their goods the dealer benefits himself more than he would by selling unbranded or unadvertised—"unknown"—goods. He secures more profit, the advertiser says, and the consumer gets better goods and is better satisfied and business for all is more stable and progressive. Let us consider these contentions.

3. *Claim of quality.*—Manufacturers assert that nationally advertised goods have established a reputation for quality. Advertising, they argue, increases sales and reduces selling costs. Large sales also mean a large-scale business which employs the best materials, the highest constructive skill and the most sanitary methods, to say nothing of the ablest executives and the latest types of machines. The very fact that advertised goods are preferred by the public after it has had the fullest opportunity to make comparisons, as it is constantly invited to do, is, according to the advertisers, another proof of quality in their goods. Nothing, they say, will more quickly kill off inferior goods than to bring them into the limelight of publi-

city thru advertising. The conclusion is that the goods that survive this test must be goods the public actually wants.

The consumer again has confidence in nationally advertised goods. Past experience with them has led him to know what to expect. He can identify them. Their quality, whatever it is, is invariable. He buys them quickly, conveniently and confidently by name. He is spared any trouble of investigation. He can send a child to buy them, or can order them by telephone and be sure of satisfaction. If, for some exceptional reason, the goods turn out to be unsatisfactory, the dealer, acting for the manufacturers, will replace them with goods that are satisfactory. The manufacturer is forced to do this because of his branding and advertising. The good-will of the dealer and dealer's customer is his most precious assets. On them the future of his business is built. Ease of identification thru the trade-mark and effective advertising put the manufacturer's prosperity in the hands of the public. Wouldn't he be foolish, the manufacturer asks, if he did not give the public the best he is capable of offering?

Still another proof of quality in trade-marked and advertised brands is that the public follows them without regard to the store itself. A person who is accustomed to buying a given brand of clothing does not hesitate to deal with a store previously unknown to him that sells the same clothing. The handling of well-known goods will often establish a new store's

reputation overnight. On this subject a trade paper has said:

> The retailer who ignores the powerful influence of advertising is completely out of tune with the times. That advertising has brought about a stable condition in buying and selling is evident at every turn. Whether it be an incubator, a thresher, a breakfast food, a collar or a cigar—people want to buy and duplicate their buying by name. They don't want nameless unknowns.

A "nameless unknown" may have all the quality of an advertised brand but how can we know it? How can we tell if it will be twice alike? How can we trust it?

4. *Value in manufacturer's name.*—Nationally advertised lines undoubtedly confer prestige on the retailer who handles them and are largely sought by the wideawake merchant. They provide a sort of ready-made good-will in advance for him, which he could not otherwise get except at the expense of weeks and months of personal effort. The trade paper, *Men's Wear,* publishes an appreciation from a retailer of the value of a manufacturer's name:

> Three years ago, (says the retailer), I sold $700,000 annually. Today I am selling $1,000,000. Part of this, not all of it, is due to the fact that I sell and advertise Blank's clothing. My name on my store in my town is worth a lot more than theirs; I could sell it for $250,000. But their name on their clothes is worth a lot more than mine. My customers know that I do not make clothes, and the name of Blank on the clothes answers every question any man might be inclined to ask. The combination of my name on my store and their name on my clothes in my town cannot be beat.

5. *Increase in sales.*—Goods which are advertised bring more sales than goods which are not. People are drawn to a store not only by the manufacturer's advertisements, but by those of the dealer in connection with it. The strength of the double appeal is readily apparent where a contrast is made with another store that advertises only its own service. Suppose such a case. Assume two clothing stores in a town, in the same line of business, are both competently managed, equally prominent and equally prosperous, and neither featuring any nationally advertised lines. Now let the storekeeper of one change its policy and stock a line of nationally advertised clothing. To his own local reputation it adds the national prestige of the manufacturer and has it working for him locally thru the local newspapers. He has the help of the manufacturer in solving his sales problems. Every month hundreds of people in town see advertised in the magazines the goods he carries. Once or twice a week they see the local advertising, as well as his window trims and perhaps window display too. At the end of six months, which store ought to have the greater trade?

6. *Decrease in selling costs.*—Nationally advertised goods have canvassed the consumer in advance, so that when he enters the store little remains to be done by the salesman. For this reason such goods are sold more easily and quickly than goods which have not been advertised and with which the consumer is unfamiliar. The customer who asks for a trade-marked

razor or pair of shoes, who calls for a breakfast food by name, who is in the habit of purchasing a hundred and one things in the same way, is easy to wait upon. He knows what he wants and the goods have only to be wrapped up and given to him without a long explanation or argument on the part of the clerk. Well-known standard goods sell with an expenditure of less time and therefore less expense than are required by unknown brands. In this connection *The Retailers' Men's Apparel Magazine* says:

> Retailing of advertised goods is frictionless. The advertising brands are called for by name—there is no dickering, no uncertainty to buyer or seller; the sale is closed quickly. Additional profit in advertised goods lies in the time saved in waiting on customers.

7. *More frequent turnovers.*—Because of this more rapid sale, goods nationally advertised permit of a more rapid turnover of the retailer's capital and hence larger aggregate profits than do unbranded or privately branded goods, even when the profit on each sale may be less. A retail dealer, for example, sells at ten cents each two similar articles, one of which is nationally advertised and the other not. On the advertised article he makes a gross profit of two and one-half cents; on the other, a gross profit of five cents. The advantage to the dealer would seem to lie with the latter article. But on account of the demand created by the advertising, the dealer sells one hundred pieces of the advertised article in the same length of time it takes him to sell only twenty-five pieces of the

unadvertised one. This would give him an aggregate gross profit on the advertised article of $2.50 as against only $1.25 on the unadvertised brand. Moreover, it is probable that the four times as many people who bought the advertised article bought four times as much in other goods in the store as did those who bought the unadvertised article. That is a very important consideration.

A further advantage to the retailer is to be derived from the handling of nationally advertised goods. Being more staple than others, they do not usually have to be closed out at the end of the season at a loss. If the dealer is overstocked, he need make only a slight reduction in the usual selling price to insure the goods moving quickly. The manufacturer, however, wishing to avoid giving any occasion for tampering with the retail price of his goods and so possibly disorganizing his market, uses every precaution to avoid giving the dealer more than he can conveniently sell.

8. *Manufacturers provide selling aids.*—The average retailer has much to learn about advertising. Every progressive merchant, however, sees evidences all about him of its power. He is, therefore, willing to accept any opportunity that does not conflict with his interests to make use of this power for his own profit. This willingness the manufacturer tries to meet half way with an advertising and selling service. He furnishes the dealer with many kinds of "dealer

helps," including store and window cards, hangers and posters, inside and outside signs, store and counter fixtures, advertising novelties, cuts of goods, electrotypes for complete advertisements, street-car cards, window displays, form letters for the dealer's customers, booklets and other advertising literature. He helps the dealer turn his weak advertisements into "pulling copy" and he supplies him with many suggestions for advertisements that cover not only the manufacturer's goods or line, but many other things the dealer desires to push.

9. *Opposition to national advertising.*—Opinion is by no means unanimous as to the merits of national advertising. Many manufacturers prefer to sell their goods unbranded, or if they do brand them, to sell them unadvertised. Opposition has been evinced for a number of reasons.

10. *National advertising does not confer quality.*—Some opponents say that national advertising is no proof of quality in the goods and that brands which were originally of high grade are often allowed to deteriorate after the public has become familiar with them. This criticism may have been justified once upon a time before the nature of advertising was realized. No doubt there are still new advertisers who believe that it is good policy to build up a demand and good-will for their goods thru publicity and then kill both by cheapening the goods. But we would not find that the case with any of the old advertisers, or

with any of the important advertisers, old or new. Advertising, with them, is investment and they would not dream of destroying the basis of it.

It is asserted that many unadvertised goods are as high in quality and as well known as those which are advertised. This may be conceded without question; advertised goods have no monopoly on either quality or public favor. All that advertising can do with reference to the quality of the goods is to cause a more general appreciation of it, if it is there, and force the advertiser to put it there if he has not already done so. Quality is the first and best advertisement. Branding is the next. If goods have supreme quality, they will make their way anywhere. But they will not without the identification that branding gives. All other advertising is merely the intensification, amplification and extension of the brand.

11. *Name on the goods.*—Many merchants profess to be doubtful as to whether the manufacturer's name on goods has any special value. They affect to believe that their own names are worth more to the local public than the names of the manufacturers. In the past most large retail stores have used only their own private brands and have refused to push the so-called standard ones. Where stores follow the policy of "satisfaction or money back," the name of the store is sufficient guarantee of quality. Over a long period these stores have established reputations in their communities. But to a new customer who knows nothing about the stores such a guarantee is not as potent

as that back of a nationally advertised product with which he is thoroly familiar. It does not mean any more and it may mean far less. In appealing, therefore, to transients and to new customers, the stores which carry nationally advertised goods have a decided advantage. And this is an argument for the manufacturer.

12. *Influence of national advertising.*—Critics of national advertising say that its effectiveness is overestimated. They charge that relatively few people read the advertising in the general magazines, and that the creation of a demand thru this source is largely a fiction of the advertisers and others directly interested in influencing the dealer, who, they say, really does the work of selling. As against this statement, it is only necessary to point out the substantial results obtained in the same classes of mediums by mail-order advertising. A large proportion of national advertisers check up the effectiveness of their space, copy and mediums by offering booklets and other advertising matter to those making inquiry. Experience shows that the volume of inquiries bears a certain more or less fixed relation to the volume of business obtained as a result. Another proof of the effectiveness of advertising within limits is that experience shows it has those limits. After an advertiser has spent say, $200,000 a year in advertising and obtained certain results, he finds that additional advertising expenditures do not produce proportional returns; he is approaching

the so called "saturation point," where people cannot be induced to buy more by any effort. This limit, in practice, is more imaginary than real, since the advertiser will continually be experimenting with new fields or new class and price levels. All these circumstances prove the effect of advertising on sales.

Many opponents of national advertising deprecate the sales aids or dealer helps of manufacturers as being either worthless to the retailer or else "ninety-nine per cent" advertising for the manufacturer and his goods. There has been a basis for this criticism in the past, but the situation is rapidly changing. The manufacturer's policy of today is to give advertising helps which will feature the dealer more than the manufacturer. It is being increasingly realized by progressive manufacturers that nationally advertised goods will not suffer but on the other hand be greatly benefited if retail stores are assisted in building up each an individual prestige of its own. The two reputations, local and national, should not antagonize one another, but pull together.

13. *Question of profits.*—That nationally advertised goods generally give smaller profit than unadvertised goods is another objection made by some dealers. To them this fact, so far as it is a fact, signifies that it is really they who pay the advertising bill. Unquestionably in some cases this is true, but as a whole it is not. The history of advertising shows that advertisers have been only too glad to give dealers the largest possible profits in order to secure their

cooperation. The effect of doing so in most cases has been the exact opposite. In competition among themselves to secure trade, the dealers have cut the "long" prices that gave them large profits and eventually lost all interest in the goods involved. To give the retail trade an unusually large margin of profit is often, therefore, anything but the happy solution of sales difficulties that the new advertiser may be prone to think it.

Even when the dealer does have to take a small profit as compared with that on other goods, the large number of sales resulting from steady and wide demand gained from national advertising make his aggregate profits from the goods larger than he could get on unadvertised competitive goods giving perhaps larger individual profit but moving slower. Comparing the trade resulting from both methods, the *New England Grocer and Tradesman* says:

> Taking the trade as a whole, the profits are better on nationally advertised goods, and when the grocer considers the volume of these goods which he can sell and the ease with which the sales are made he must admit that they are money makers of the best description.

14. *Advertised lines make dealers dependent.*—One of the most persistent objections on the part of dealers to handling advertised lines is that it prevents them from building up a business of their own and that they are made dependent upon the favor of the manufacturer. When the dealer advertises his own goods and his own brands he is advertising his own products

for his own store. If his sales service and selling policies create good-will for his establishment it is good-will which comes to him alone. He has thru fair dealing with the public deserved and secured its confidence and in making purchases the public will rely on his word rather than on the name and reputation of some manufacturer who looks on the dealer as a mere distributor for him, one of his animated slot machines.

The same middle ground is to be taken here as before. Of course, the dealer should try to build up a personality for his business. The process of doing so is a slow one. Why should it not be aided by the manufacturer's advertising and good-will? Whether the dealer becomes a slot machine depends on himself. Any form of selling makes the dealer a cog in the marketing machine. But there is no reason why he should become machine-like. The dealer may retain as much individuality and independence in selling trade-marked goods as in selling any other kind. The large number of bustling individual retail shops thruout the country now specializing in advertised articles gives ample evidence of the truth of this.

15. *Channels for unadvertised goods narrowing.*— Manufacturers who do not advertise still sell large quantities of goods in trade channels which readily accept unbranded or privately branded goods. However, all indications point to the narrowing of this demand. A constantly increasing proportion of

manufacturers are pushing their brands by advertising. This gives them an opportunity to escape jobber or dealer domination and build a business future for themselves by going to the court of last resort, the public, and getting a decision there.

Advertised goods have undoubtedly stimulated retail trade in making the consuming public want more and better things. If the advertising were to be discontinued it would cause a falling off in sales. Statistics show that the majority of dealers favor nationally advertised goods. Salesmen know that it is easier to interest dealers in such goods than in those which have not been or are not to be advertised.

They are increasing in favor, too, with consumers. In the future it will become increasingly difficult for manufacturers in most lines to follow any other selling policy.

REVIEW

What is the most effective way in which manufacturers influence and assist the retailer?

How does national advertising insure a standard quality in a product?

What are the reasons for the assertion that nationally advertised goods show a bigger net profit for the retailer?

What is the strongest argument against selling nationally advertised goods? Is it sound?

CHAPTER XI

SELLING TO THE CONSUMER

1. *Means of direct selling.*—When it is a question of reaching the ultimate consumer and the three-quarters of a million retail stores of the country are not available or suitable for the purpose, there are, roughly speaking, four other methods to employ: (1) specialty salesmen; (2) a chain store system of one's own; (3) mail-order; and (4) direct by mail.

2. *Specialty salesmen.*—The manufacturer having an article to market that requires in the selling more explanation than middlemen are able to give, usually falls back on specialty salesmen to do it for him. Such an article is usually a high-priced novelty. That is only another way of saying that people do not want it at first. It takes a higher grade of salesmanship than is necessary in the ordinary channels of business to make them realize that they do want it.

Specialty salesmen sell to all classes of consumers —manufacturers, dealers, private individuals; and ordinarily not for resale. The National Cash Register Company's salesmen, for instance, are specialty salesmen selling chiefly to store for the latter's own use. The representatives of the Alexander Hamilton

Institute are specialty salesmen. So are automobile, sewing machine, life insurance, bond salesmen. So, in effect, were all the business men who went out for a day or week to sell Liberty bonds and take subscriptions for the Red Cross, United War Work and the rest of the war charities.

Sometimes a manufacturer selling thru the usual trade channels finds it necessary to make an exceptional effort to move an old brand that has been running down in sales or to introduce a new one, and yet does not feel that it is advisable to bear down any harder on his regular sales staff or take them off their regular work. In this case, he will probably put on a specialty salesman to push that one brand with jobbers and retailers. It has, besides, the effect of gingering up the staff. The instance is not one of direct selling to the ultimate consumer, but it illustrates the types of salesmen and the characteristics they may be supposed to possess as the result of concentration and intensification in their work.

A frequent use of specialty salesmen occurs when a manufacturer for one reason or another wishes to make an immediate consumer market for a new article both as a means of stocking the trade and possibly to head off approaching competitors. Some years ago, when what were then called tungsten electric light bulbs were brought to a stage of commercial value, there was a rush among their manufacturers to get them on the market. Some of the largest companies called in high grade specialty salesmen and

these men went thru the leading cities taking contracts from the important office and factory buildings to replace the old carbon lamps. The companies had to make an especially low price to the salesmen to permit them later to clean up the handsome profit they demanded, but the manufacturers found it worth doing because the new lamps went into almost instant use in most of the big buildings of the East and later elsewhere, as fast as they could be manufactured. The high grade men were followed by other salesmen who took what was left in the territories. The ready-made demand was subsequently turned over to the trade. Still later some of the manufacturers trade-marked their lamps and advertised them as "Mazda."

The best type of specialty salesmen are really business men on their own account, specialty promoters, who pick up a proposition and "skim the cream" off, then as soon as the cream is gone drop it for another with more cream.

Other grades of specialty salesmen are sometimes organized in crews to work a territory in a house to house or office to office canvass in support of some brand of goods which it is intended to sell or is being sold thru local stores. The salesmen or saleswomen, as in some cases they are, generally take orders instead of selling for cash, but not always. The orders may be turned over to the dealers, and the dealers' orders secured in turn to forward to the jobbers. This is one of the standard ways of starting distribution for a new brand after the jobbers and dealers have both

objected that they must be "shown" the existence of a demand before they will consent to order. Often the type of local drive is accompanied by advertising. It is continued from town to town until the "repeat value" of the goods is proved and the jobber is no longer afraid to stock for other territory, or the manufacturer to undertake a more general campaign. The drive is, in other words, at the same time a test.

Demonstration crews go thru the same movements, except actual selling, and if they are successful stimulate the consumer to buy.

3. *Manufacturers' chain stores.*—Chains or retail stores which are owned and operated by manufacturers are common in some lines, as boots and shoes, candy, pianos, hats, etc., but their possibilities seem to be limited. Manufacturers, as a rule, are loath to establish them and do so only to assure a market for their output. They fully realize that manufacturing and retailing are distinct activities which call for different kinds of ability and training. Moreover, the manufacturer can almost always use his capital to much greater advantage in extending the facilities of his plant than in branching out into retailing, retailing being generally less profitable than manufacturing as respects the return on a given amount of capital.

4. *Mail-order selling.*—This is selling from an advertised offer or an advertised catalog in contradistinction from selling thru direct-by-mail letters, catalogs and literature. Few manufacturers do a large, exclusively mail-order business direct with con-

sumers. Many at one time or another may develop a mail-order business on the side while building up a dealer or agency system; in these cases sometimes crediting the dealers or agents with the sales and sometimes not. Many of the large catalog houses manufacture some of the goods they advertise and sell, but as a rule they find it cheaper to buy than make. The general reason why it is not safe for most manufacturers to depend upon mail-order advertising as the sole means to sell their goods is that advertising is more of a suggestive or stimulating force than a strictly selling one. Used with other forces it may be of the greatest value. Used alone, it may require so much space to effect the desired result, that the cost is prohibitive and this is generally the case.

Mail-order selling thru agents is a different thing. It is not, strictly speaking, direct selling, but as it has no place in the regular jobber-retailer system and so has not been described in connection with it, it deserves a word here. In mail-order selling of this type, the manufacturer or wholesaler advertises for agents to sell his article locally and offers premiums as inducements to do so. The agents he desires may be women and children. He may want no more than a few hours of their spare time and expect no more than $2 or $3 worth of sales from each. But when many thousand agents are secured and set at work; are carried over from season to season or year to year; and a good will developed with them for the manufacturer thru the selection of desirable premiums, a

very satisfactory business may be done. The main principle involved is that there are many people who will pay in spare time work that they cannot pay in money to obtain something they want and that it is possible to organize them by advertising and provide work which will enable them to obtain that something—the premium.

5. *Direct-by-mail selling.*—This is more often with modesty called direct-by-mail advertising. It is all one. By either expression is meant the solicitation by mail, whether in the form of orginal letter, "processed" letter, circular, folder or any form of printed or lithographed literature, including catalogs. Of great and growing importance in the commercial field, the practice is also beginning to join ground in the field of the final consumer. The most important reason for its growing popularity is its directness or intimacy of touch. Nothing but personal salesmanship can secure more exclusive attention or make more impression than the personal letter or attractive mailing card or folder. A second reason is its comparative inexpensiveness. Many businesses that cannot afford either selling staffs or advertising campaigns carry on considerable business by this means, and other large businesses that use both the other means also make heavy use of it as an auxiliary.

A common and increasing use of the method is the familiar circularization of customers for the local dealer on behalf of the manufacturer's product. The manufacturer prepares the matter and sends it out

generally under the dealer's name and often with his signature. At first these mailings used to be ordinary letters and printed cards. Nowadays, they are generally carefully composed and often handsomely printed or lithographed matter which does not fail to make an impression on both the retailer and his customers. Many times the retailer is only too glad to pay the postage on these and more. Some styles of mail matter are protected by patent, the patent owner selling the service to manufacturers.

REVIEW

Name four uses to which specialty salesmen are put. Why does this type of salesman require a high grade of ability?

What has been the experience of manufacturers who have established their own retail stores?

What is strictly meant by mail-order selling?

Distinguish direct-by-mail selling from mail-order selling.

CHAPTER XII

GOOD-WILL AND PRICE MAINTENANCE

1. *Price maintenance defined.*—Virtually all manufacturers of trade-marked or otherwise branded goods are desirous that they should be resold, whether by jobbers to retailers, or by retailers to the public, at uniform prices, so much for the jobbers and so much for the retailers, and should not be subject to price-cutting. This condition is called, by the manufacturer, price maintenance. According to it, both jobbing and retail prices may be either fixed at certain levels or permitted a small variation within minimum and maximum limits to allow for differences in localities. The retail prices, especially, are not supposed to be affected by any price concessions the manufacturer may give to those dealers who purchase in large quantities.

2. *Price maintenance an issue.*—Many manufacturers, as well as observers of business tendencies, have gone further than to approve the desire and concede the moral right of the manufacturer to price maintenance. They call it, in addition, a necessity. In this opinion the United States Supreme Court has not concurred. While it has not attacked price maintenance as an abstract right, it nevertheless has denied

to manufacturers the use of several expedients by which the right was secured and has consequently dealt the practice a heavy blow. However, the question is by no means settled. It was placed in abeyance by the war. Signs multiply that it will again become an issue and one of the livest sort, regarding which every man in active business life, particularly one who is connected with a business marketing its own brands and possibly advertising them, should take pains to inform himself.

3. *Rise and development.*—Price maintenance is more or less directly an effect of three important factors in business—large scale production, trademarking or branding and advertising. When, a few years ago, in consequence of enlarged factory facilities, goods began to be produced faster than they could be sold thru the regular channels of distribution, competition for the control of these channels necessarily became intense. Manufacturers were obliged to give more and more attention to marketing, they were driven to devise all manner of new plans for inducing jobbers and retailers to handle and push their goods. Retailers, in their turn, found that they must struggle among themselves for the local trade in ways of which they had not previously dreamed. The jobbers, being relatively few and powerful, were at first least affected.

So long as the demand for goods had exceeded the supply, the manufacturers of the country had been little disturbed about competition. They had gener-

ally taken their share of business and been content. When some discrimination on the part of the jobber became necessary and the weight of his hand began to be felt by the heretofore independent producer, it was only a question of time before new tendencies would declare themselves. The producers began to look around. They discovered a condition they had not realized before, namely, that the real market for their goods was not the jobbers and retailers, but the consuming public—the jobbers and retailers were only middlemen.

The rest followed quickly. The practice of branding goods is an old one and its principle had been fairly apparent to the manufacturers, but it had not previously offered any special advantages to them for the reason that the channels of distribution were in control of the middlemen and the reputations of the latter were more powerful than the reputation of any manufacturer's brands could be. Branding was indispensable as a means of enabling the public to identify the manufacturer's goods after they reached the market, but something else in addition, some further force, was needed to get them to the point where the public would be sure to see them.

4. *Advertising standardizes price.*—The force that could do this was soon discovered to be advertising. Branding identified the goods; advertising made them known. After they had been tried, their quality and price determined their future fate. Already newspaper and poster advertising had established the value

of local publicity, and general magazine advertising, which had been gathering head since soon after the Civil War, eventually demonstrated the power of publicity over a broad or national area, in spite of many mistakes and much waste of money on the part of advertisers, for which, however, the principle of advertising is not to be blamed.

The branding and advertising of the goods called attention to their quality; the public was invited to satisfy itself on that point. Besides quality, there are two other elements possessed by every article: quantity and price. In the interest of publicity, the manufacturer standardized both of these as he had previously standardized quality; that is, he gave as much quality as he dared or wanted to give at a fixed price. It is not necessary to suppose that in doing this the manufacturers were animated by philanthropic motives. They acted with an eye to their own interests. But, in general, their aim was to fix a price low enough to sell the article rapidly to the public and yet high enough to return at least a fair profit and insure to the middlemen whose good-will was desirable if not absolutely necessary, a similarly satisfactory return. The price thus fixed became an integral part of the goods. It was featured in the advertising and became known to the public. These two features, uniform price to the public and uniform prices or profits to the middlemen, are, according to the manufacturers, the foundation of successful brand promotion.

5. *Price-cutting advertises dealer who does it.*—It was soon discovered by the retailers that advertised brands, for the very reason that their retail price was standard and widely known, furnished an ideal subject for price-cutting. When everybody knew that a certain proprietary article was advertised by the manufacturer to sell at $1.00, and a local department store advertised it to sell at 79 cents, the cut price was a great inducement to buy. The department store that sold the articles at the cut price might actually lose money on the sales, but on the other hand it would have drawn people into the place and would sell them other articles on which profits would be secured to compensate for the price reduction. The profits on not merely one article, but dozens of articles and even on a whole department, have been systematically sacrificed in order to advertise low prices and attract trade, to whom the low prices on a few goods were a presumption of low prices on all.

6. *Price-cutting demoralizes trade.*—The amount of loss or profit to the retailer was not a matter which profoundly touched the manufacturer; his interest was in the effect on his goods and their distribution. The first effect he noted in regard to price-cutting was that competing retailers complained of it and held him responsible, their supposition being that he had given the department store a special secret discount in return for a purchase in quantity. This might have been true, manufacturers often being as short-sighted as other classes and prone to see the immediate

dollar and overlook the distant trouble. Some few manufacturers actually encouraged price-cutting on their goods. If the manufacturer were powerless to remedy the conditions, or disinclined to do so, the other retailers would cut the price also and after their stocks had been cleaned out, would refuse to reorder unless compelled by the public demand to do so. Then they would reluctantly stock the goods and fill calls only, making no effort to push the goods or cooperate with the manufacturer. In either event, there would be no money in it for the retailers. They would cry down the advertised brands and push competing bulk goods or private brand substitutes.

The situation would not have been an especially serious matter to the retailer if it had been confined to a few articles or lines, but as a matter of fact it began to affect almost all lines and grades of goods, and many retailers, the smaller, neighborhood stores for the most part, began to suffer. They had not previously been able to compete with the big stores on bulk, unbranded or unknown goods, which the big stores could buy in large quantities at "inside" prices and if necessary sell at prices their less fortunate competitors could not meet. Now the profit on the advertised goods was being destroyed for them, the little retailers. Owing to a combination of circumstances of which price-cutting competition was only one, many retailers in different lines began to go to the wall. Price-cutting speeded the tendency.

7. *Problem for national advertisers.*—The national

advertiser's situation was this: he might, if he were able, keep on advertising and force the little retailers everywhere—as long as they were in business—to handle his goods whether they made any profit on them or not, but he would not be able in that event to look to them for educational and promotional cooperation, and after they began to go out of business he would have fewer outlets for his goods. He might sell more goods for a time thru their intensive work and advertising, but in the end there is no comparison between a few big centers making spasmodic drives and a host of little stores selling regularly. Up to a certain point, moreover, it is much safer for a manufacturer to sell many buying centers than a few. He is not so much at the mercy of individual stores and can afford to lose one now and then without being much affected, whereas when one big customer drops out, it is a blow. So, while some of the larger national advertisers did not suffer serious loss or inconvenience from price-cutting, they did not like the tendency: what injured the little retailers and impaired the whole system would sooner or later reach and injure them.

Most national advertisers are not big. Their advertising is not and cannot be made powerful enough to smother all opposition, "drive the consumer into the dealer's store" and "force the dealer" to give him what he calls for. These phrases once did duty in advertising circles, but they have long since, for most advertisers, gone into the discard. To most national advertisers, the dealers' cooperation is a mat-

ter of commercial life or death. Advertising is, broadly speaking, a complementary force only; it starts something, but the dealer has to finish it. And it was a matter of the greatest consequence to the advertisers whether they had few or many outlets. It might be all right for some big dealer to take an unknown manufacturer's product and price it as low or as high as he wanted. Nobody's reputation but the merchant's was involved. The public held him responsible for price and quality. But when he cut the nationally advertised brand he not only depreciated the product in the eyes of the public by conveying the inference that it was originally overpriced and was being so sold by most other retailers, but he also destroyed or impaired the manufacturer's good-will with other dealers and injured them as well.

8. *Price cutters' defense.*—All of these contentions are not admitted by the price cutters. Conceding that many dealers are injured by their price raids, they justify their acts as being the public's only protection against overcharge, and dismiss the independent dealer's complaint as the wail of inefficiency.

9. *Price maintenance thru contracts.*—The situation did not suddenly become acute. The manufacturers began to act as soon as they saw the early tendency. Their first solution was to secure contracts from their retail customers assuring that they would not cut prices. For several years this worked satisfactorily. Most of the retailers had no wish to cut

prices. They were glad to get a full profit on advertised goods and they appreciated the efforts of the advertisers to send business to them. The few retailers who were able to secure goods from dealers or jobbers thru underground channels and then advertise them at cut prices were at first not especially troublesome. Manufacturers felt that they had the situation so well in hand that they even developed short-cut contracts securing price maintenance in some cases thru "notice"; that is, the acceptance of a box or package on which notice to that effect was labeled was assumed by manufacturers to constitute a contract. This did away with the necessity of securing a contract from every jobber and retailer.

10. *Price maintenance thru contract illegal.*—Previous to 1908 no one seems to have questioned the propriety of these agreements when they were made without coercion. Then came the change and the first adverse court decision. The feeling against trusts and large corporations had for some years been running high. Anti-trust legislation had been passed. The movements which eventuated in the prosecution and dissolution of the old Standard Oil Company and the old American Tobacco Company were under way. Apparently it had occured to those retailers who were hostile to nationally advertised goods to find in the price maintenance policies of the manufacturers a parallel to the fixing and manipulation of prices which the courts and Congress had condemned and to construe their own acts of price-cutting

as the laudable means of protecting the public against the exactions of incipient monopolists.

At all events, they became bolder in their defiance of the trade-mark owners and their contracts, and during the past decade, with a few exceptions only, they have been sustained in their attitude by the courts. The Supreme Court has denied the trade-mark owner the power to enforce a contract of price maintenance, on the ground of its being contrary to public policy. When the manufacturer has parted with the goods and received the money therefor, it says in substance, he has no further interest in or control over its subsequent course in traffic. To arrange with others to prevent price cutting, has been held to be conspiracy in restraint of trade. The Federal Trade Commission has even gone further than this and in the case against Chester Kent & Company of Boston declared that the manufacturer cannot legally refuse to sell to price cutters, or even hint at price maintenance in his dealings with customers. The United States Supreme Court has intimated that it is disinclined to hear any more cases on the subject and that the matter should be threshed out, if at all, in Congress.

As the case stands at this point, the manufacturer is permitted to sell at any price that suits him, either direct or thru agents, but not otherwise to control the price. In selling thru agents of course, he does not part with the ownership of the goods; his agents merely act for him.

11. *General effect on distribution.*—These decisions of the courts have had a profound effect on a large portion of the business world. They have been, generally speaking, of two kinds: those touching the manufacturers and those regarding the middlemen; one on marketing, the other on merchandising. The manufacturer, forbidden to use the simple, direct, inexpensive means of maintaining the resale price of his goods, has turned when he could afford to do so to other methods which either limited his distribution, or increased his costs and so his price. As the production and sale of goods must in the last analysis be considered as a service to the public, for which the public pays, it is evident that the public suffers a loss when, in order to protect his price and assure his dealers a living profit, the manufacturer gives them exclusive rights in a town or neighborhood, or consigns his goods to dealers, or markets them thru agents, in any case curtailing the distribution or investing more capital than would otherwise be necessary, thus adding an unnecessary increment to the cost of the product.

In the retail field, the period of the growth of price-cutting in standard advertised brands was also the period of the development of the department store, large mail-order house and store chain or syndicate. The former period was not the sole or most important cause of the latter. Advertised goods were, and are, only a small part of the total amount sold. The tendency toward centralization was produced by many

factors. Increased ease of communication was one; other things being equal, people prefer to trade in large centers and large stores where the range of choice is wider than it is in small stores. The growth of cities provided such trade as the stores had never before known and they were forced to grow; in growing they discovered new principles of business and in consequence widened the gulf between themselves and the little stores.

Some of the business principles they discovered were quantity purchases and sales drives, local advertising; accounting and cost finding, and turnover practice. These were accidental and temporary advantages only. The knowledge of them is being more and more diffused thruout the sales structure. In time, a new balance between the big and little stores would have been reached and both classes would have gone forward together as before. The tendency towards this balance or equalization of opportunity was fostered by the development of national branding and advertising, which are diffusive, centrifugal forces, scattering goods to the remotest corners of the country and putting all middlemen who supply them on an equal basis. Price-cutting grasped this force that would have protected the small retailers, and turned it against them. Instead of mitigating the tendency towards concentration of power, it increased it.

12. *Ray of hope for price maintenance.*—The situation would appear altogether discouraging from

the viewpoint of the trade-mark owner and the average retailer except for several important circumstances, some of which are of recent occurrence and others which are only just beginning to receive general attention. One of them is the decision of a federal district court in the case brought in Virginia against Colgate & Company, for an alleged violation of the Sherman Act. In this case, the court found that the indictment "failed to charge any offense, either in restraint of trade and commerce, under the Sherman Act, or any other law of the United States." In view of the fact that the evidence showed the distribution of telegrams and lists of uniform prices in efforts on the part of the manufacturers to persuade dealers to maintain such prices, and refusal to sell dealers until they gave assurances and promises to do so, the decision is equivalent to saying that a manufacturer has the right to refuse to sell distributors who demoralize or may demoralize prices. In other words, it negatives the Federal Trade Commission's view.

A suit on the part of a price-cutter to compel a manufacturer to sell him failed some years ago in a federal district court, but the Federal Trade Commission has seemed to consider that decision overruled by the Supreme Court in decisions given later. If the Colgate decision is upheld by the Supreme Court, manufacturers will have one certain way of protection open to them, one not the best, one that does not touch the main point at issue, but still one that is much better than nothing.

13. *Issue one of trade-mark protection.*—A decision that would seem to be of more far-reaching importance was rendered about the same time in the Chancery Court of New Jersey in a suit brought by Robert H. Ingersoll & Bro. against a department store they had sued to enjoin it from the use of their trade-mark in connection with price-cutting. In this case, the court sustained the position of the manufacturer and found among other things the following:

The practice of a manufacturer who makes and sells an article not the subject of monopoly but instead subject to keen competition, the price of which has been standardized thru extensive and expensive advertising, of affixing a notice under the terms of which purchasers are forbidden to resell at less than the standard price without removing the manufacturer's marks and guarantee, is not offensive to public policy or the Sherman or Clayton acts.

A retailer who buys the article from the jobber with knowledge of the conditions imposed upon the resale is bound by such conditions.

When a retailer purchases articles thru a jobber in New York, which articles have become known to the public generally thru extensive advertising as standard priced, with knowledge that the articles are sold under condition that they are not to be resold at less than the standard price without removing the manufacturer's trade name and guarantee, with the preconceived purpose of offering them to the public in the state at a price less than standard, so

that the public may believe that all the goods in the store are similarly low priced, whereas in fact they are not, he will be enjoined from selling at less than the standard price without removing the manufacturer's trade-marks and guarantee.

The peculiar importance of the decision lies in the fact that a vital distinction is established between the goods and their trade-mark, and that it plainly shows that it is not the quality of the goods but the reputation of the trade-mark that the price-cutter wishes to trade upon and exploit. The manufacturer is perfectly willing to let the dealer do anything he wants with the goods and sell them at any price provided he will remove the trade-mark and guarantee; he will even be glad to manufacture the plain goods for him. But that does not suit the price-cutter. It is the trade-mark he is after. Still later, the Federal Trade Commission recommended to Congress the passage of legislation permitting manufacturers to fix resale prices for trade-marked or otherwise identified articles, under government supervision. Congress has not hitherto been favorable toward such legislation.

14. *Price maintenance and the public interest.*— The New Jersey decision clears the air. It is much easier than before to identify price maintenance with the public interest. Manufacturers had complained of price-cutting and the price-cutters had demonstrated a direct public advantage from it. Manufacturers had asserted that it ruined their advertising

and many people hostile to advertising had thought that was not a bad thing. Manufacturers had called price-cutting unfair competition and retailers in reply had raised a shout of coercion.

One must go deeper to find an issue that touches the public. This decision in the New Jersey court furnishes it. A trade-mark is granted by the government in order to identify an article or indicate its point of origin. It is protected by law on the presumption, which is also the fact, that the owner of the trade-mark, being known, must protect the quality of the article it identifies and that he thereby serves a public interest. A trade-mark gives a monopoly not in the goods but in the name. The name is the manufacturer's way of guaranteeing that the goods are of high and uniform quality. The whole purpose of trade-marking is in order that the public shall be able, after it has tested the quality of the goods and liked them, to find them again—the same in quality, size and price. This is so manifestly a public necessity that trade-mark rights have always been jealously guarded by the courts.

Still higher ground might be and by some has been taken. A condition of material progress is that people know what they are eating, wearing, using for any and every purpose. They must be able, as previously pointed out, to secure again what they have found good, and avoid what they have found wanting. But life is too short for us to post ourselves on all sorts of qualities and prices of all sorts of unknown,

unidentified products, and the reputations of all manner of unknown or half-known manufacturers and middlemen. Who will tell me if this is the same product I bought before and liked? How do I know that it was right to charge 25 cents for that last week and 35 cents this week? Who will vouch for quality, quantity, price? Who will take all the responsibility and care of scrutinizing each purchase?

We have to do this still with unbranded goods. We are never sure of the same quality or price twice running, or of their freshness, or cleanliness. In buying them from the jobber or direct, the dealer had to exercise the same kind of care, and the jobber also in buying from his sources of supply. It was once the same on everything. Buying and selling took more time and intelligence and therefore cost more; and the cost had to be added to the price of goods; the public paid it.

Then branding and advertising came in. The goods were identified; the manufacturer's reputation and future prosperity were at stake. He had to maintain or improve the quality of his goods. If he did not, a more intelligent competitor got the business away from him. In order to protect the quality of the goods (supposing they were food products) he put them in packages and even made these air-tight and moisture-proof. There have been outcries at various times against the cost of packaging, but few people care to go back to the old days of loose goods in open bins with the resultant exposure

to dirt and vermin. Furthermore, the cost of packaging is no more than that of paper or string, and the clerk's time in weighing and wrapping. Last, it should not be forgotten that the lower cost of bulk goods is due to the fact that there is little demand for them in that shape, that they are the small surplus left from the package supply, a surplus on which, moreover, nobody has wasted any time to assure their quality and cleanliness.

The fact that the trade-marked goods are not of themselves monopoly goods is the source of another immense benefit to the public, in the stimulation of competition and invention. Take one instance, the Gillette safety razor, retailing at $5. There were safety razors before the Gillette, but they were not advertised. Few people knew about them or cared to experiment with them. Gillette popularized self-shaving. Five dollars looks like a lot of money to some people for something that costs less than a dollar to make. Compare the cost, however, and the cost of the blades, with the cost of shaving to the men who do not shave themselves. Above all, however, consider that since the Gillette razor was put out and as a result of the branding and advertising, somewhere in the vicinity of one hundred other safety razors have come upon the market and the public now has a choice of all kinds and qualities of safety razors ranging in price from two or three times $5 down to ten cents, possibly a nickel. Millions of dollars have been spent for safety razors and hundreds

of millions of dollars have been saved by self-shaving. All this has taken place within a period of ten or fifteen years. Had it not been for branding—the patent is actually a minor consideration—and advertising, the change would have taken no one knows how many decades.

The same thing is true of every other line or class of articles. Some manufacturer brands and advertises his product to shake off the competition of trade rivals, and the result, sooner or later, according to his success, is a variety of trade-marked articles of every quality and price, on which the manufacturer assumes responsibility. Not only the manufacturers gain, but the public gains from this system based upon trade-mark protection. Destroy it, if you can, by price cutting, and it is certain that you will limit the number of articles and their popularization and increase the cost of all.

15. *Waiting for Congress or the Supreme Court.*—There will never be any absolute certainty on the subject of price maintenance until the question as presented in this new light by the New Jersey Court is passed upon by the United States Supreme Court, or the view is adopted by Congress.

It is a somewhat curious thing that the question in this fundamental form has never come before the Court and that the Court has never heard any argument upon the merits of price maintenance as trade-mark protection. All the various decisions that have been rendered have been on collateral issues, as to

whether, for instance, a secret formula or a copyright was entitled to the same supposed right enjoyed by a patent in enforcing price maintenance; as to whether such a right actually was implicit in the patent; as to whether price maintenance could be effected by license, etc.

In the eyes of the manufacturers, the Court in all these cases seems to have been acting on the supposition that there was an obvious analogy between price maintenance and price manipulation, the latter having been at a previous time condemned by the Court. To the latter, it must have seemed that the manufacturers had strong reasons for not meeting that question fairly and not endeavoring to show, if they could, that the analogy was a false one and that price maintenance was in harmony with the public policy, was even, in fact, demanded by it. Probably, as a matter of fact, at that time a great many manufacturers and their lawyers were very far from being sure of it themselves. They knew that they wanted price maintenance and felt that they ought to have it, but the broad reasons in support of it have become apparent only after long study and experience.

It is certain that the agitation will be kept up until the question is settled by a thoro ventilation either before the Court or in Congress, probably the latter, now that the Federal Trade Commission has made its recommendations to the latter body. The matter would have reached a crisis and settlement before this

time, had not conditions been so radically changed by the war. With the return of peace and the release of factories and machinery for peace production, there is certain to be a renewal of the pitched battle between the two forces: on one side, the trade-mark owners, small retailers and national advertising mediums; on the other side most of the local department stores, chain stores, mail-order houses and local newspapers. On the issue of the dispute depends the character of future marketing and merchandising.

REVIEW

Distinguish between price maintenance and price manipulation.

What arguments do manufacturers advance in defense of price maintenance?

Why do chain stores, department stores and large retailers oppose price maintenance?

How has price-cutting tended to raise the prices of nationally advertised goods?

What is the history and present status of price maintenance in the courts of this country?

CHAPTER XIII

REACHING THE MARKET AND THE COMPLETE CAMPAIGN

1. *Absence of standards in selling.*—Selling has never been standardized in detail; few of its practices have been reduced to rule. Except in a small minority of cases, even with many facts in hand about the trade, the market, the product, it is impossible to say with definiteness what method of selling should be followed in order to insure a desired result. If all the factors in the market, including our customers and our competitors, acted according to a system, and we knew the system, success would be more or less of a scientific certainty. That is far from being the case. A few broad tendencies are recognized by anybody; others may be discovered by study, observation and the use of statistics—outside of these, all is subject to doubt and change.

2. *Correct judgment necessary to marketing.*—All known facts of moment may be gathered by the management of a company and applied in settling a sales policy and yet because some one factor is neglected or overemphasized the results may be disastrous. A manufacturer, say, has discovered an apparent need for his product among a certain class of people. The

dealers approached have shown a willingness to handle the goods. To a cursory investigation, the competition in the field appears negligible. Thereupon, the manufacturer adopts a certain selling method, only to find later a new competitor in the field with ample reserves, more elaborate plan and larger sales force. His investigation has failed to uncover this pertinent piece of information. In consequence, his selling method may have to be fundamentally changed to meet the changed situation.

Too much information, therefore, cannot be collected preliminary to a marketing campaign. The greater the amount of data and the more exact it is, the less likelihood there is of wrong decisions.

3. *Shopping lines and convenience goods defined.*— The various trade channels thru which goods may be marketed have already been described in Chapter V. All goods using these channels have been divided broadly speaking into two groups, known as "shopping" goods and "convenience" goods. This classification was made by Mr. C. C. Parlin of the Commercial Research Division of the Curtis Publishing Company. Mr. Parlin defines shopping goods as those bought only after a comparison of values has been made in several stores. In this class are the higher priced goods which women purchase, such as ready-made clothing, millinery, furniture, rugs, carpets and the better grade of dress goods.

Convenience goods differ from shopping lines in that they are bought without comparison of values.

They are purchased at one store instead of at another: (1) because of the convenient location of the store; (2) on the impulse of the moment, suggested perhaps by the sight of the article in the store window; (3) on account of custom which is strong enough to hold the trade of a customer after it has once been attracted; (4) because of the desire to buy a special brand which is on sale in certain stores.

The classification applies to the goods bought by both sexes. In purchasing office furniture or an automobile, for example, a man compares values closely. In other words, he goes shopping. In the ordinary sense of the word, however, a man does not shop; he selects his store for the same reasons that a woman selects a store in which to buy convenience goods and buys in that store whatever suits his purpose.

4. *Shopping centers.*—Some communities, Mr. Parlin found, attracted more trade from surrounding districts than they lost to other communities. These towns or sections of a city he calls shopping centers. Each shopping center is likely to have three or more department stores or similar establishments handling shopping lines because women apparently like to compare values in at least three stores before making purchases. If the shopping center is a large one and there are more than three department stores in it they can usually be classified in groups of three, according to the grade of goods carried and the people appealed to.

5. *Marketing shopping lines and convenience*

goods.—For the manufacturer this seemingly natural division of products into shopping lines and convenience goods holds special interest. It gives him one more guide to his market. If, for example, he is making a class of goods that figure as a shopping line, it may prove wiser policy for him to confine the sale of his product to one of the three competing stores in each shopping center, where he will get exclusive and special attention, than to scatter the goods thru all three, unless he is a heavy advertiser and can be indifferent to dealer cooperation. In this way he can be reasonably sure that all shoppers, before they decide to purchase, will visit the store where his goods are on sale. Exclusive agencies of course make larger purchases than individual dealers under the ordinary system.

Department stores depend almost entirely on the trade of women. They are usually more anxious to handle shopping lines for this reason. The great majority of convenience goods are sold in local specialty shops. To choose this kind of agency for the marketing of shopping lines would be unusual and its value problematical.

Sales of convenience goods are increased by placing them in as many stores as possible. They are ordinarily marketed thru jobbers because the majority of retailers purchase only in small quantities. The department stores handle many convenience goods, people visit the stores primarily to shop and buy convenience goods only incidentally.

6. *Determining price.*—Of equal importance within the trade channels selected is the determination of the price which a manufacturer shall charge for his product. By some the setting of a right price is considered the very first step in a sales campaign; upon it depend gross profits, from which are taken all the expenses of selling. Upon it also depend the discounts of jobber and retailer, and, therefore, their attitude towards the goods.

Price in the last analysis is governed by the economic law of demand and supply. But in arriving at a price for his product, the manufacturer must have something more tangible to build upon than estimates as to the volume of future trade. One kind of price, for example, a railroad fare, is based upon the principle of charging "all the traffic will bear"; another bases it upon cost, adding to that a fair profit to himself and an allowance for selling and advertising. Keen competition among manufacturers has put an end generally to extravagant profits per unit. The need for building up good-will and discouraging future competition is steadily narrowing the margin between cost and selling price.

7. *Components of price.*—The price set by the manufacturer covers a number of elements. First, it must cover the cost of production. The unit cost of manufacture is usually at a minimum when the factory is running at capacity. A low selling price may, therefore, actually prove more profitable than

a higher one which restricts sales and uses only a part of the factory's facilities.

Expenses of selling must also be included in the selling price. Selling expenses depend on trade channels chosen by the manufacturers and include such items as discounts to jobbers, retailers and other middlemen, the cost of maintaining a sales force and the cost of advertising.

One of the most vital considerations is the element of profit desired. The net amount left after cost of manufacture and all selling expenses have been deducted must be sufficient recompense to the manufacturer for the risk he has taken to engage in business and the investment he has made.

8. *What determines profit.*—The manufacturer's profits are not secured as a result of plant efficiency alone. The nature of the field in which he operates and the competition there are also factors. Considerations over which he has no control may keep the business small and preclude large profits; if he would expand his business, he must add new lines, new territory or new classes. The nature and value of the service rendered also exerts an important influence upon profits. If the public values a service highly it will pay generously for it. An automobile, a vacuum cleaner or a talking machine sells at a high price with ample profit to the manufacturer and dealer because it renders a service believed to be of great value to the public while a kitchen utensil or a cake

of laundry soap sells at a low price and returns a small individual profit for the reason that no one values so highly the service which either of these commodities performs.

A second factor in the production of profits is the purchasing ability of the consumer. What can the prospective customer be made to pay for the article? Every manufacturer is naturally interested in securing the largest effective sales, but at what figure must the selling price be placed to yield them and yet insure a profit? The market for a fountain pen is the general public. If the fountain pen manufacturer wants to secure large sales he must narrow his rate of profit. A player-piano, on the other hand, going to the homes of well-to-do people only, may be priced high to cover a large selling expense and proportionately large profit.

The dominant factor in pricing is the influence of competition. The number of competitors in the field, the prices charged by them, the possibility of future competition—all these things closely restrict the manufacturer in naming his price. He must not make it so high as to invite rivalry, nor so low as to weaken himself. In practice, he usually finds out first what competitive conditions will permit him to charge, and then, after settling the amount of gross profits he desires, which is also determined largely by competition, he figures out of this for selling and other expenses such part of the margin as he feels he can afford; the remainder he considers as profit.

9. *Sales policy.*—The various influences which the sales policy should bring under control are sometimes not even considered until the progress of the marketing campaign makes evident the need of such a policy. Then time, effort and money are lost in making the necessary adjustments. Sales policies, like prices, trade channels, selling methods and all other principles of marketing should be selected in advance, so that the campaign, when it is once inaugurated, may move forward without interruption and at full speed.

The more important matters a sales policy is called upon to consider are credit, quantity prices, fixed prices, guarantees, and service.

10. *Credit.*—Every manufacturer must determine to what extent he will grant credit. If cash sales are the custom in the industry, would it be best for him to follow that policy, or could he make credit accommodation, in spite of its increased expense and risk of loss, a selling point in getting business? Automobiles were at first sold virtually on a cash basis. Some manufacturers now openly offer credit. Before committing himself to a policy of credit, whether this is an innovation in the line or not, he will naturally consider the probable effect on his business from the attitude of the public and competition. Some industries have suffered from an abuse of credit. It would be a mistake to adopt a sales policy that would perpetuate confusion and demoralization, which the whole trade is endeavoring, perhaps, to bring to an end.

On the other hand, if credit is usually granted in the industry and a manufacturer determines to put his business on a cash basis, he must be willing to face the possibility of small sales at first and slow development of business.

11. *Quantity prices and discounts.*—Most manufacturers have a scale of discounts for dealers who buy goods in large amounts. In the old system, such discounts were allowed only to the jobber; one large discount was made to jobbers and another smaller one to dealers. But when the department store came into being, and after it the mail-order house and chain stores, all of them often buying more at a time than some jobbers, most manufacturers were unable, even if they desired, to resist the pressure for price concessions, regardless of what the effect would be on the independent stores which bought only in small quantities from the jobber. The effect, as previously described, was demoralizing. In consequence, some manufacturers are breaking away from the custom. They realize that when they give quantity discounts to retailers, they promote price-cutting and so cannot come into court or Congress with "clean hands" and demand price maintenance, as a champion of those who suffer from price-cutting or defend such maintenance on the ground of a necessary uniformity in price.

Most manufacturers believe in quantity prices. They argue that it costs the seller less per dollar of sales to make a large sale, pack the order and handle

the account. They also point out that the buyer taking a large quantity at one time relieves the manufacturer of the burden of storing stock. The larger buyer, therefore, should be compensated for performing the storage function. Finally, the givers of quantity prices remind us that they are customary in nearly all forms of business and that the opposition to them comes from a comparatively small group.

Manufacturers who believe in the one price or "square deal" policy, without any consideration being given for buying in quantity, combat these arguments. They point out, for example, that many lines of goods are subject to rapid deterioration and therefore should not be sold in large quantities, the public holding both manufacturer and dealer responsible for spoiled goods. The manufacturer, they say, should rather encourage minimum unit purchases at frequent intervals. Quantity purchases are not advantageous unless the goods can be sold at once. Storage costs eat up profits. Small dealers cannot move large stocks rapidly and, therefore, should not make quantity purchase. The only sound policy is relatively small stocks and rapid turnovers. Manufacturers should help dealers to realize this and should cooperate with them in carrying it out by making the lowest price possible to the dealers in general and refusing to favor a few large buyers at their expense. The number of those who hold these views is small, but it is growing.

12. *Free deals and secret discounts.*—Instead of giving extra discount or shading the price on these

goods, manufacturers in some lines, groceries and drugs especially, give a bonus to buyers in the form of free goods. This bonus is called a "free deal." Generally only weak companies do it, since it is a direct incitement and suggestion to the dealer to cut the retail price. But it is used or was used in the period before the war by manufacturers in breaking into new territory or opening up a new line. A specialty manufacturer, in order to induce a retail grocer to buy a new brand of canned goods, might offer a case of goods free with every ten cases bought. Or a druggist could obtain with every quarter gross of some proprietary article an extra free dozen. Sometimes the offer takes the form of a concession for window or store display. In any case, it is a price reduction in effect without being so on paper. Sometimes it is used to effect price reduction in a restricted territory without going to the bother of publishing a new list. This practice had the disadvantage of making dealers suspect list prices and hold off for "deals." In other words, it made selling harder. When the "deals" were offered, dealers often loaded up with too much so that the retail price had to be cut to make it move. A large number of trade organizations had already protested against this practice, when the Federal Trade Commission and War Industries Board officially frowned upon it.

Secret discounts or "inside" prices of any kind now encounter severe criticism. The manufacturer who offers them is distrusted by dealers and runs the

danger of coming in conflict with the Federal Trade Commission. With the advance of trade ethics one price to all who buy under the same conditions is being recognized as the only fair policy.

13. *Guarantees.*—The manufacturer's sales policy is likewise influenced by what attitude he takes in regard to guaranteeing his goods and accepting "returns." Most trade-mark owners stand as squarely behind their goods as the nature of the goods permit, thus protecting the dealer as well as the consumer. This is an absolute necessity. In doing it, many manufacturers and industries went too far at first. Gloves, for example, were once guaranteed absolutely without restriction. The first result was that retailers, freed from any responsibility to the consumer, relaxed their care in fitting, in explaining how to put on and take off the gloves and furthermore put no limit on the time in which they might be returned. They pushed the guarantee for all it was worth. The second result was that the consumers, also freed from responsibility, relaxed their care of the gloves and when they ripped or split under abuse demanded a new pair free. Manufacturers were swamped with returns. They were obliged to make the guarantee less general and reeducate the public on the subject. Many other industries had somewhat similar experiences. Printed guarantees seem to be falling into disfavor with dealers and consumers because of the many restrictive provisions and qualifying clauses which manufacturers have felt obliged to insert for

their own protection so that when goods which are evidently defective are returned to the manufacturer it is found that the guarantee does not cover them. Rather than run the risk of losing consumer good-will, many manufacturers issue no printed guarantees with their goods, but advertise that the goods are guaranteed as to workmanship and material and, when claims of defects in them are made, adjust each case on its merits, taking care, however, to tip the scales in favor of the customer.

14. *Service.*—The extent of service is another thing which must be decided by the manufacturer in laying out a sales policy. Of late years service has been increasingly emphasized by progressive manufacturers until it has now become the big word in modern business. It is made to cover everything from speed in filling dealers' orders to giving complete satisfaction to consumers. Many manufacturers have an advertising service for dealers. Others have elaborate service departments to keep customers satisfied. This is especially true of companies marketing mechanical goods like typewriters and automobiles. The automobile service station is an expression of the idea. Many truck manufacturers before the war gave so much service that new sales were often liabilities. Most periodicals help their advertisers to secure greater returns from their advertising expenditures. In the technical field, especially, some manufacturers provide architects, builders, and engineers with data on their materials. A furnace manufacturer, on re-

quest, submits complete plans of furnace installation in any house, without placing the inquirer under any obligation to accept the plans. Service of this kind is often expensive and in the end must be justified in sales.

15. *Preparing budgets before marketing.*—Before a manufacturer starts upon a marketing campaign he should provide himself with a carefully prepared budget of estimated receipts and expenditures. A typical budget includes the following items; tabulation of complete expense balanced against returns from 90 per cent of the proposed first year's output; detail of manufacturing expense; detail of sales organization expense; detail of advertising expense; detail of expected volume of sales with basis of estimation; detail of possible lesser and greater volume of sales, with accompanying scales of graduated expense and returns; detail of administrative financing of the proposition.

If a manufacturer is analyzing a business already established he can start with definite facts regarding present costs and needs to estimate only the expected increase in business and the cost of obtaining it.

The manufacturer who is entering a field of business is forced to resort to estimates for all costs except when he is fortunate enough to learn the manufacturing and selling costs of a competing line. These estimates are not easy to make, but they constitute perhaps the most important single item of the plan of campaign. Many a marketing campaign has run on

the rocks because of the lack of this information. The costs of getting business may have proved greater than any reasonable expectation of sales would warrant. Manufacturing costs may not have been adequately studied before prices and profits were determined. Sufficient capital may not have been available to tide the manufacturer over an emergency, or a study of the finances of the company looking to proper provision for the future may have been neglected or overlooked. The failure to consider any one of these important items necessary to the marketing plan of campaign will lessen its chances for success.

16. *Cooperation with dealers.*—A dealer looks to the manufacturer and his goods for three things—salability in the goods, a chance to make a good profit on them, and, if possible, cooperation from the manufacturer in moving them. The sagacious manufacturer, of course, aims to satisfy him on all three heads in order to have his good-will and active cooperation. But all manufacturers are not far sighted. None would attempt to market an unsalable article, not a few err in providing a reasonable profit for the dealer, and very many offer a kind of cooperation the dealer does not want and cannot accept. In planning dealer helps, window trims and other cooperative features a manufacturer should be careful to ascertain what dealers like and will use and what they do not want and will not use. The leading advertisers take pains to do that before plunging into an expense which may

run into tens of thousands of dollars on one item alone, and other advertisers to whom a few hundred or thousand dollars is just as important can very easily, if they wish, take the same trouble.

17. *Sales records.*—Finally, the plan of campaign should provide for complete records of everything that is done and the results obtained. Plans should be made which would provide for recording the exact cost of every phase of salesmen's activities, every different form of advertising, including the cost of each advertisement and the cost of sales and advertising administration. Records should be kept of total marketing expense, subdivided as much as is desirable, of the sales attributable to the different methods of sales stimulation, of the consumption of the product by individual buyers, by towns, salesmen's territories and other units. Records should be kept also of new profits made from each form of selling effort in each subdivision of the market, and of comparative statements of cost, sales, and profits for successive years shown in as much detail as is deemed advisable. In brief, records of every kind should be kept which will enable the manager of the business to know exactly where the business stands, what is being done to stimulate it, the cost of stimulation and the results obtained. From these data he learns where to pull down and where to build up. To know where it is going, business must have complete records.

REVIEW

Do you understand the meaning of the classification of all goods into "shopping" and "convenience" goods? Where is each class usually to be found?

How shall a manufacturer determine what price he shall put upon his goods?

What outside factors tend to limit the percentage of profit a manufacturer may figure on making?

Name four or five factors which the manufacturer ought to consider before arranging his sales policy.

What is there to be said in favor of quantity discounts? Against them? How have some manufacturers overdone the matter of guarantees?

PART II

MERCHANDISING

MERCHANDISING

CHAPTER I

THE JOBBER

1. *Scope of treatment.*—Merchandising, as before said, is trading; that is, buying goods and selling them again without making any essential change in their character. The selling problems and practices of merchants, whether wholesale or retail, are very like the marketing problems and practices of manufacturers which we have just been considering. The buying habits of the two divisions are, however, quite different: the manufacturer has to prepare his goods for the market, while the merchant buys his in a salable state. It is true that all wholesalers in some degree and also the largest retailers exert a very great influence over the preparation of the goods they accept, even to the point of dictating quality, style, packaging, label, color and size, but their problem in getting these is simple compared with the problem of making, assembling, designing or otherwise preparing the same goods for the market. As buying, under modern market conditions, is first influenced and determined by selling considerations, we will give our attention primarily to the latter, in connection with

the market factor standing next to the manufacturer, namely, the jobber.

2. *What are jobbing lines?*—All manufactured goods we know are not distributed thru jobbers. In some lines the jobber is losing importance; in others he never was important. In at least four great staple lines, however, he maintains the important position that he has held for many years. These lines are groceries, hardware, dry-goods, and drugs. In each of them the retail dealer must carry a great variety of goods, prepared by many different manufacturers. These conditions give the jobber an opportunity for usefulness, in fact, practically necessitate the service he performs, and the goods handled are commonly known as "jobbing lines." Not all the business in so-called jobbing lines passes thru jobbers, but jobbing is the normal channel and any departure from it is made only for the most compelling reasons.

3. *What is the jobber's pay?*—His compensation is generally not so great as is often supposed. For instance, an article intended to be sold to retailers at $4.00 a case may be billed to the jobber at "$4.00 less 10 per cent." The jobber pays $3.60 for this case of goods, and sells it for $4.00; hence forty cents is his gross profit on the transaction. He handles many articles, particularly in the grocery trade, on this narrow margin. Sometimes his profit is less. A well-known brand of widely advertised soap, for example, is handled by the jobber for only a trifle more than eight per cent gross profit. In other lines the profit

is larger, running sometimes as high as 25 per cent. It has been a charge brought against the jobbers, particularly of the grocery trade, that where they extended large credit and had their retail customers practically in their power, many of them were in the habit of taking 50, 75 and even 100 per cent profit. Figures are not available to show the average jobber's gross profit on all lines of goods, but probably in the grocery trade it is not greatly in excess of 15 per cent. Out of this he must pay the expenses of conducting his business, ranging between 6 per cent and 15 per cent of his sales; he must earn a return on the capital invested, and he must have something left as net profit if he is to continue to run the risks of his calling. In other lines of trade, however, the jobber's profit is greater.

4. *Jobber and retailer.*—What return does the jobber make for what he is paid? The jobber's service is two-sided, it is given to both manufacturer and retailer. Altho the fact that the jobber lowers the cost of wholesale distribution of many manufactured articles is of importance, perhaps his chief service is to make possible the existence of the hundreds of thousands of neighborhood retail stores which our buying habits demand. The best way to understand what the jobber does for the retailer is to imagine how the retailer would fare without him. A typically successful store of the smaller sort—a neighborhood grocery store, for example—has on its shelves three or four hundred different kinds or brands of goods made by a

hundred or more different manufacturers and their brands are distributed by three or four jobbers. Suppose, as suggested in Chapter XIII of the preceding section on "Marketing," that all the jobbers are eliminated overnight, and a retail merchant wakes up some morning to find he must buy every item in his stock direct from the manufacturer. What would he do? Some of the difficulties under which the merchant would labor in buying direct are given in that chapter on "Selling to the Retailer," but they are there considered with the manufacturer's problems in mind. Now we will dwell on them briefly from a point of view of the retailer himself.

5. *Difficulty in keeping complete stocks.*—The first difficulty of the retailer in such cases would be in keeping complete stocks. When he bought from a jobber, he kept a memorandum of needed supplies, and gave a lump order when the jobber's salesman made his rounds. Even with this easy method of ordering, the retailer had previously found it hard work to have always on hand a supply of even the common staples. With no jobber to supply him, the necessity of constant reordering from a hundred or more different manufacturers would be a tremendous obstacle in the retailer's road to success and only an elaborate system of perpetual inventories and purchasing methods would enable him to keep up with his needs and that would be prohibitively expensive.

6. *Necessity of seeing many salesmen.*—Moreover, the time spent in seeing the salesmen of several hun-

dred manufacturers or in ordering from their catalogs would be enormous. Even under the jobbing system, the retailer found that a considerable part of his time was taken up with seeing competing jobbers' representatives and the salesmen of the comparatively small number of manufacturers that sell direct. With the jobber eliminated, he would have to employ many responsible buyers and only a store with a large trade could possibly do that and survive.

7. *Unbalanced stocks.*—Without the jobber's service, the retailer would have great difficulty in keeping a well-selected and well-balanced stock. Without specific knowledge of the quality and selling value of every competing line in his stock, he would be importuned constantly by a horde of salesmen to stock large quantities of one line at the expense of another. One of the greatest services which the jobber rendered him was to enable him to select a well-rounded stock of standard goods. His jobbers were keenly aware of the necessity of cultivating his continued good-will; they knew that their own success depended on his and that of their other customers; they knew that the secret of retail prosperity was largely a matter of minimum stocks, quick turnover, and frequent purchases. None of the multitude of competing manufacturers could have the solicitude for the retailer's continued success that the jobber had. They would all be pulling against one another. The jobber ordinarily did not push any one kind of goods. He tried to build up the retailer's business as a whole, and he rendered

valuable service by aiding him with all kinds of buying and selling plans.

8. *Need of more capital.*—With the jobber eliminated the retailer would probably have to purchase in much larger quantities than when he bought from the jobber, because the solicitation and handling of petty orders does not pay the small one-line manufacturer. The dealer would, therefore, require more capital to do business than was previously needed. If his business remained of the same size, he would have more capital tied up in goods, could turn it less frequently, and consequently would make less profit. The alternative presented to him would be either to go out of business or increase his prices.

9. *More storage space required.*—Larger purchases in each line would necessitate increased storage space, and thus increase his costs and diminish his turnover and profits, or force him to advance his prices. The small dealer now relies on the jobber to carry his surplus stock for him. The warehouse function of the jobber thus works to the great advantage of manufacturer and retailer alike.

10. *Credit arrangements would cease.*—The struggling merchant of ability can usually find some jobber to back him until he gets on his feet. In every town there are retailers who would have to close their doors if it were not for the help given by some jobber. The jobber, when he extends unusual credit to a retailer, does so not from mere good nature, but because it is good business to develop customers. The manufac-

turer's relations with the retailer are not and cannot be so close. No one retailer means so much to a manufacturer as he does to the jobber. The manufacturer cannot invest capital in him. The retailer would have to carry himself, or retire from the field.

11. *Elimination of the small dealer.*—This analysis of the conditions that the retailer would have to face with the elimination of the jobber, clearly shows that for the small dealer in jobbing lines the jobber is an absolute necessity. Without the jobber, a very large proportion of all retailers would have to drop out of business, and the field would be left to those who are large enough and strong enough and backed by sufficient capital to do for themselves the things which the jobber now does for them.

12. *When the jobber is necessary.*—It should be remembered that what has here been said of the service rendered by the jobber to the retailer applies only to these small-unit, fast-moving, so-called jobbing lines. If a store can buy its entire stock of goods from a few manufacturers, the jobber's service is not important. This is the case with stores handling lines of shoes, furniture, clothing, etc. The elimination of the jobber would not greatly handicap these stores, because in perhaps the majority of cases even the smallest of them are already purchasing direct from the manufacturer.

It should also be remembered that we are not considering the advantages and disadvantages of the present system of multitudinous small stores scattered

everywhere thruout the country, and of the present system of independent, strictly competitive, relatively small units of manufacturers. It is possible that with fewer and much larger retail stores and with combinations among manufacturers for the purpose of more economical marketing, there would be less necessity for the jobber's services. Under present conditions, however, it cannot be denied that the jobber is essential to the existence of the great majority of retail stores in many lines.

13. *Jobber's service to consumer.*—Finally, the jobber serves the consumer. He permits the existence of the neighborhood store, which is demanded by our modern buying methods; he is useful in creating place and time utility; he provides an economical method of marketing for many manufacturers, and thereby keeps down prices; he encourages retail competition, increases retail efficiency, tends to weed out the unfit in merchandise and to encourage the sale of goods of quality. He touches the lives of the public in such a variety of ways that, if he were to disappear from the merchandising field, we should find ourselves seriously inconvenienced; we should be under the necessity of abandoning old buying habits and forming entirely new relations with the sources of supply of many of the things that we eat and wear and use.

Many people who believe in the jobber's service, question whether his function in sorting, crating and uncrating, packing and unpacking, and reshipping goods received by him from the manufacturer is an

economical one for the public. The suggestion that the jobber shall act solely as a sales agent and a collector, and not handle any goods and also that all his orders be taken on the "drop shipment" basis; and finally that the manufacturer ship in small amounts direct to the retailers by parcel post were discussed in the previous section on "Marketing" and need not be repeated. Doubtless, many reforms are possible, but they have not yet been made and we are here occupied with the description of things as they are and the reasons therefor.

REVIEW

What are the services performed by the jobber for the retailer?

In what manner does the existence of the jobber have an economic influence upon the consumer?

Under what conditions may the jobber be eliminated? What is the present tendency?

What factors tend to fix the percentage of profit which a jobber may make?

CHAPTER II

MODIFICATION OF THE JOBBER'S SERVICE

1. *Manufacturing jobber defined.*—While most goods are still marketed thru what has been called the "orthodox type in distribution," meaning that the goods pass from the manufacturer to jobbers, retailers, and thence consumers, there are a number of agencies in distribution in which many of these functions have been combined. A notable example is the manufacturing jobber, who, as the name implies, sells as a jobber goods that he has manufactured himself, or which he has had manufactured for him under his own label.

2. *Advantages of combining distributive functions.*—There are certain economies which are secured by combining the functions of the manufacturers and the jobber. These may vary according to the nature of the business and the manner in which it is conducted, but in the main they apply wherever manufacturing and jobbing have been combined.

3. *Economy in methods of production.*—All the principles of factory administration with its resulting economies are applicable to the business of the manufacturing jobber. Proper routing of work, the use of time schedules and labor-saving machinery, the

adoption of standard methods of operation and premium systems of wage payments are only a few of the principles which might be enumerated. The factory systems in any one of a dozen or more of the large wholesale grocery concerns in the United States and Canada are illustrations of industrial organization and management carried to its highest state of efficiency.

4. *Economies in stockkeeping.*—By keeping most of his stock in bulk, packing it and preparing it for shipment only as demanded, the manufacturing jobber saves space, minimizes the number of soiled and torn packages and so arranges his storage facilities that depreciation and waste are kept at a minimum.

When the manufacturing jobber maintains a separate factory, he secures the saving which comes from large-scale production. Altho the use of this method necessitates packing and warehousing, it requires less of it than other manufacturers find necessary, because the certainty of the outlet makes plans for production more definite.

5. *Long credits on private brands.*—The manufacturing jobber usually offers longer terms of credit on goods of his own brand than on other lines. This is done as a special inducement to encourage purchasers. As the jobber is making a larger profit on his own brands either thru the saving resulting from manufacturing or thru the ability to get a higher price, he can afford to give longer credits. Moreover, as a manufacturer, he does not have to give a long-term

credit to the jobbing department and this saving can be passed along to the retailer. With both a manufacturer's and a jobber's profit secured to him, the manufacturing jobber has a wider margin on which to base his credit terms.

6. *Methods of organization.*—The manufacturing jobber may desire to keep the manufacturing part of his business entirely separate from the jobbing end, even going so far as to sell to other jobbers. He may incorporate the factory separately, keeping the same officers as in his jobbing business. He may instal a complete cost system. If the last mentioned thing is done, it will be easy to allocate costs and to determine the cost of each product at any stage of production, as well as its total cost. Some jobbers, however, contend that the complete separation of the manufacturing and jobbing ends of a business produces friction between the two departments and weakens the ability to meet competition.

Under another plan of organization, each department of the jobbing business does whatever manufacturing it thinks advisable. For example in a wholesale grocery concern the buyer for the spice department may decide to manufacture vanilla extract instead of buying it in the open market. Manufacturing jobbers who put their buyers in charge of the manufacturing, each for his own department, insist that considerable saving results. They believe that a buyer's expert knowledge of the requirements which the product must meet makes him better able to su-

pervise the manufacturing than someone less familiar with public demand. It must be borne in mind, however, that whenever manufacturing and jobbing are combined in one establishment, the type of organization resulting depends largely on the nature of the business, the size of output, and similar considerations.

7. *Semi-jobber defined.*—A second type of distributive unit in which more than one function is combined is the semi-jobber. This term is applied to a merchant who sells both retail and wholesale trade. Most semi-jobbers begin with one line, generally the retail, and later add the other. In only a few cases has a merchant entered both the wholesale and retail business at the beginning of his career.

8. *Why semi-jobbing has developed.*—The development of a semi-jobbing business has been due to a number of reasons. The chance for the merchant to make a double profit has proved a strong inducement to him to undertake both branches of the business. The wholesale merchant who adds a retail branch to his business may wish to obtain a guaranteed outlet for his jobbing business, to conduct a service station for retailers, to try out new merchandise plans, or to dispose of odd lots, broken lots, or slow-selling stock.

The retailer who adds the jobbing function to that of retailing may do so in order to give better service thru more ready access to a wholesale stock; or he may wish to establish agents and can do so only thru an increased capacity to buy in jobbing quantities. Any one of the above reasons may actuate a merchant in

taking on either the wholesaling or retailing functions as the case may be.

9. *Methods of organization.*—Where semi-jobbing is carried on the plan of organization is usually one of three different forms. In cases where the retail function is added to a growing wholesale business, it is usually handled by the regular wholesale organization. The wholesale and retail stocks are not separated, nor is there any other line of demarcation except that the accounts are kept separately.

When jobbing is added to a retail store, it is usually handled by some one specially employed to do so. This person takes wholesale customers to any department and, with the buyer of that department, shows the goods desired. The buyer makes special prices on each article unless wholesale figures have been made in advance. A wholesale business of this nature is conducted by John Wanamaker in his Philadelphia and New York stores.

In houses in which either of these types of organization prevail there may be a complete organization for both wholesale and retail. Segregation generally begins with separate accounts, then separate showrooms; later, a separate open stock but with each department depending on the same buyer and the same reserve stocks. Finally the retail manager feels the need of keeping his line complete by purchasing elsewhere and he eventually builds up his own buying force.

The third type of organization is one in which the

business has been both wholesale and retail from the beginning. Each member of the sales force is given a loose-leaf price-list of both wholesale and retail prices. Certain retail salesmen may be permitted to handle requests for wholesale prices, altho most of this business is attended to in the wholesale offices. Names of persons entitled to wholesale prices are registered and full information necessary to conduct a wholesale business is kept so that the firm's dual activities may not overlap and bring ill-will to the house. Hammacher, Schlemmer and Company of New York, dealers in hardware, follow this type of organization.

10. *Cooperative jobbing idea.*—The enormous development made by department stores, chain stores and mail-order houses within very recent years has greatly intensified competition for the retailer. Independent retailers have watched the chain stores buying direct from manufacturers at quantity prices and have known them to give large orders to friendly jobbers and secure drawbacks in the form of split commissions. This has forced the independent retailers to the conclusion that their safety lies in close buying and has taught them that the way to buy closely is to band together and buy direct from the manufacturer. By cooperative buying, these retailers have been able to secure the same quantity discounts on purchases as the jobbers, and by maintaining a central warehouse they have also been able to eliminate part of the jobber's selling expenses. In addition to the economies secured from closer buying, retailers have secured

other economies by more efficient internal management of their businesses.

The retailers seek, by combining, to appropriate the profit usually made by a jobber in obtaining their business and also to save the selling expense which all jobbers incur and which, of course, has to be figured into the jobbing price. The profits that would otherwise go to the jobber are distributed as dividends among the member stores or in the form of rebates, or in lower prices on goods bought.

11. *Forms of cooperation.*—Cooperative jobbing takes a number of forms. There is the buying syndicate which is a loose organization that supplies its members with some goods but not all. The Nebraska Federation of Retailers is an example. This grocery organization plans to buy certain staples in carload lots and to sell them for cash to the members at cost price, plus a small charge for administration. Another organization, in another line, maintains an exhibition hall in Chicago where manufacturers display their goods. Retailers come to this central office and buy thru an expert buying staff maintained by the organization. Each retailer is charged an annual fee of five dollars, and has no other financial interest. For this reason the organization cannot be considered as truly cooperative.

Still another type of cooperative jobbing is shown when retailers organize a corporation, maintain a warehouse, carry on all the jobbing functions and obtain all the savings which accompany organized co-

operation. The Girard Grocery Company of Philadelphia is an illustration of this kind of retail cooperation.

12. *Buying arrangements of cooperative associations.*—One of the big organization problems in cooperative jobbing is to establish satisfactory buying arrangements with manufacturers. The regular jobbers try to prevent manufacturers from selling to such organizations. Then, too, the new organization has difficulty in convincing manufacturers of its permanence, the mortality among both wholesale and retail cooperative concerns being high. If, however, a good financial rating is secured by the organization, manufacturers are glad to sell to it. The manufacturers get cash prices for their goods and an outlet also, which is not obstructed by private brands.

13. *Merchandise limited to staple brands.*—Most cooperative concerns limit themselves to staple merchandise, generally nationally advertised brands. This is especially marked in drug and grocery lines where branded goods occupy a large place. The association gathers lists of articles desired by retailers, and then buys direct from the manufacturer in jobbing quantities at jobbing prices. No attempt is made to influence the retailers' selection of merchandise.

The real problem of cooperative jobbing is to keep in touch with the market and the needs of the members. The concern must be able to supply promptly the goods that retailers want, since failure to do so will

lead to the withdrawal of members. The organization must also act as distributor of information on new merchandise, so as to permit members to order by mail.

14. *Selling expenses low.*—With no advertising expense and that for salesmen reduced to a minimum, cooperative jobbing houses often secure great economies in distribution. The few salesmen employed are partly ordertakers and partly business counselors. Salesmen's expense is largely eliminated because members either order by mail or call at the headquarters of the cooperative concern and order in person. Booklets, catalogs, pamphlets and price quotations are sent to members periodically and special lists whenever new arrangements have been made with manufacturers or whenever special purchases are to be offered.

15. *Returning and exchanging goods.*—Members of cooperative jobbing associations are usually allowed to return goods only for some defect in their manufacture. In some organizations, provision is made for a dealer who is overstocked to communicate with other retailers thru his central organization and in this way dispose of his surplus stock when possible.

16. *System of pricing.*—In some associations the prices are made the same as on the manufacturers' lists, the savings being returned to the retailer at the end of the fiscal year in the form of rebates and dividends. In other associations prices are cut at once to the lowest notch. In still other associations in

which non-members are allowed to purchase, current market prices are charged and no other benefits such as rebates or dividends are given the outsiders.

17. *Short-term credits.*—All sales of cooperative jobbing associations are made on practically a cash basis. Weekly payments; payments on the first and fifteenth of each month; payment on the tenth for the merchandise secured the previous month; discounts of one or two per cent for cash, are some of the methods of payment required by different associations. Losses from bad debts are negligible. One successful concern reports that its losses have not amounted to more than one-fiftieth of one per cent for any one year since they had organized. These concerns are of the going kind. When cooperative associations do not last the condition is generally due to imperfect organizing and financing. When cash payments are assured, the worst stumbling block is overcome.

18. *Deliveries.*—Direct shipments from the manufacturer to the retailer, drop shipments, as they are called, are arranged by well conducted cooperatives whenever possible. When shipment is made from the warerooms of the cooperative associations, the retailers are given the choice of sending their own wagons for the goods or having them delivered by the cooperative company with the cost charged on the invoice. This emphasis on delivery expense encourages the member of the association to group his purchases and thus avoid small shipments.

REVIEW

What economies are effected by the so-called manufacturing jobber?

What is a semi-jobber?

If you were a retailer and decided to develop a jobbing branch of your business, what kind of organization would you effect?

What conditions gave rise to the cooperative jobber?

Should the manufacturer sell to cooperative jobbers at regular jobber prices?

CHAPTER III

PROBLEMS OF THE JOBBER

1. *Radius of successful competition.*—One of the fundamental problems with which the jobber is concerned is the extent of the field in which he can operate with profit. One hardware jobber places his radius of effectiveness at 150 to 200 miles, a grocery jobber sets the limit on his staple lines at 100 miles, while a dry-goods jobber sends his salesmen as far afield as 500 miles. A jobber must determine for himself the amount of territory he can cover and work the selected territory as intensively as possible.

In considering the area which he can profitably cover, the jobber must take note of several matters. Cost of transportation is one vital point; in it must be included not only the freight but often also the charges for trucking to the retailer's store. Jobbers, therefore, make a thoro analysis of the traffic situation in order to determine just how far from a central point they can distribute the different classes of merchandise in competition with other jobbers in their own and neighboring cities.

The time element is also one of importance. Retailers, in order to reduce their stocks and increase their turnovers, are showing an increasing tendency

to buy in small quantities. Naturally, the jobber who can deliver the goods most promptly will get the business. Consequently, the jobber should note on a traffic map or some similar contrivance, the time required to make deliveries at each principal point in his territory. In this connection, consideration must be given to the ability of the jobber to secure merchandise in ample time from manufacturers and producers.

2. *Analysis of business conditions.*—The jobber's market problems are not markedly different from the market problem of other kinds of business men. An erratic upward or depressed market naturally reacts on him just as it does on the manufacturer. Its effects in his case, however, are not likely to be so great. Almost over night he may be able to manipulate his long and varied line of merchandise in some way to meet the changed conditions.

Nevertheless, the influences that affect the jobber's market are many and far reaching. A good cotton crop in the South or a banner corn crop in the West stimulates business in those sections. But their effect is not entirely local. The grocery jobber, for example, in Central New York will also be affected by them and he must take note in advance of what will happen there.

The progressive jobber keeps in touch with general business conditions thru reading the financial page of his newspaper and the financial reviews of his trade press and service. This will serve to check up the reports of salesmen which generally are colored by the

degree of personal success they are having. An excellent guide to fundamental conditions is found in the reports of pig iron production, which on account of its wide use reflects the economic condition and buying powers of the population. Other evidences of prosperity, or its opposite, are found in the amount of bank clearings and in the balance of trade as shown by the discount rate between local cities and financial centers. A detailed discussion of these guides is found in the chapters on "Investment Barometers" in the Modern Business Text on "Investment."

3. *Conditions in the industry.*—After the jobber has acquired a knowledge of business conditions in general, his next problem is with conditions within his own industry. What is the total consumptive capacity of his commodity within his territory? This may often be estimated. A family of four or five—father, mother and two or three children—is taken as an average group. Then this family is considered as from the standpoint of nationality and station in life. With these as a basis, a preliminary investigation is made in various parts of the territory to find the amount of the product consumed by a standard family. By carrying the investigation far enough to obtain reliable results, an average consumption capacity is deduced.

For example, in one section of Greater New York it has been found that the average consumption of laundry soap on the part of American, German and Irish families in households in which the family wash-

ing is done at home is about 104 cakes per hundred families per week. After obtaining the average capacity by groups according to nationality, station in life, earning power, etc., the total capacity for sections of territory can be found by using United States Census tables as a basis of calculation. In some instances the figures can be checked by state census reports.

For the jobber in the automobile supply field, a fairly close approximation of the development of the market can be had from the number of automobile licenses issued in the past year as compared with previous years.

These illustrations suggest the procedure to be followed in any other case.

4. *Studying the needs of the consumer.*—While the jobber does not consider the consumer so closely as the retail merchant studies him, he nevertheless knows the consumer as one of a class, and must, at least, so know him, in order to cater to his needs. The jobber ordinarily should push the goods which he believes will satisfy an existing demand. If the consumer has to be educated to demand a new article, the experienced jobber is generally cautious in taking it on. Jobbers have sometimes lost heavily because they failed to understand consumers' wants in respect to some new product. Most jobbers nowadays refuse to stock up on a new article until the manufacturer has created a demand for it either thru advertising or personal selling to the retail trade.

Frequently jobbers in a section unite thru a trade association in the survey of a territory to learn market conditions there for their respective commodities. The time is approaching when such data will be gathered systematically.

5. *Knowing the retailer.*—The jobber can hardly secure too much information about the retailers in his territory. The most active wholesalers make lists of their customers, actual and prospective, and keep the record up to date. They find out from whom the retailers buy—whether direct from manufacturers or from jobbers—and in what quantities; their relative effectiveness in retail selling, their possibilities of development, the chances of getting new or more business from them, the possibilities of developing secondary markets, etc. In gathering this information the jobber secures valuable assistance from wholesale and trade associations and trade magazines.

To cultivate personal relations with the trade, the jobber and his office executives find it necessary to get out into the field occasionally, since retailers no longer "come to market," as was customary fifty years ago. Trade trips of local jobbing trade associations and wholesale chambers of commerce are of inestimable value from this point of view alone.

Jobbers' salesmen are required to report systematically on conditions as they find them in each community and in each customer's business. While the salesman's first job is to sell goods still it is perfectly possible for him to gather up and pass along vital in-

formation that is of as much help to him as it is to the house. Those houses which appear to have gone into the matter most thoroly provide a printed list of questions so framed as to convey all the desired information by the simple answer of "yes" or "no." The questions should be few and pointed.

6. *Analyzing competition.*—Few jobbers make systematic analysis of competition, but instead content themselves with what their salesmen see and hear of it. The most progressive jobber, however, is thoroly informed as to the activity and resources of each of his competitors. He secures, for example, information as to their capital and credit standing from a commercial agency and from that ascertains how much capital is required to compete with them.

Competition is seldom spread out evenly over a jobber's territory. It tends to concentrate at certain points permanently and also in other parts of the territory to shift from one place to another. Too much competition in any one place cuts the profits of all concerned. It is not necessary for all jobbers to ring every doorbell together. Up-to-date jobbers keep track of what competitors are doing and arrange their campaigning so as to give their salesmen plenty of elbow room without sacrificing any real opportunities.

The length of time a competitor has been established furnishes a handy index to the amount of good-will he probably has built up. Good-will is one of the jobber's strongest assets. Conversely, it is one of the

hardest kinds of competition to meet. The only way in which it can be met is by an offsetting good-will.

Lastly, the jobber, who is on the job, desires to know how fast each of his competitors is gaining. This gives him a line on the value of the methods of each and the respective ability of the salesmen. It also indicates where he can profitably direct his efforts.

REVIEW

Is there a geographical limit in which a jobber may do business profitably?

If you were a jobber of groceries, could you find indications in the cotton crops and pig iron output, which might be used to your advantage?

Why should the jobber study business conditions both inside and outside his particular field?

Discuss the relations of jobbers toward the retailer, the consumer, and other jobbers.

CHAPTER IV

RETAIL COMPETITION

1. *Magnitude of retailing.*—The retail stores in the United States are said to number three-quarters of a million. No exact figures are at hand—even the Census does not supply them. But the figures are conservative and approximately correct. They do not include the mail-order houses and the manufacturing companies and others marketing direct to the consumer.

2. *Retailing before the Civil War.*—In the United States, previous to the Civil War, retailing was very simple. There were no department stores, as we now know them, no chain stores and no mail-order selling. Retail distribution was effected thru general stores and specialty shops. Many of the general stores were large. At that time, however, the department idea had not been introduced. The prevailing characteristic of retail selling during this period was its monotony. The modern demand for rapid changes of style and fashion was lacking. The majority of lines consisted of staples that were largely in demand year after year.

In those days dealers often bought in large quantities to get low prices and kept some of the goods on

their shelves for a long time. This was particularly true of the war period and that immediately following, during which prices were rising and demand exceeded supply. The conditions were not those which nerve ambition and promote efficiency. The prevailing opinion at that time was that "anybody could keep a store."

Until some time after the Civil War there was no such thing in retailing as a stated fixed price. The proprietor of a store and his salesmen knew what the various articles cost and they got as much for them as they could, in reason, while the customer paid as little as possible. Bargaining was the rule. Retail competition was based largely on price. Shrewd merchants even then forebore to take advantage of their customers and based their appeal on low profits and rapid sale. The run of merchants, however, did not appreciate this secret of successful merchandising. They aimed, as many do now, at big profits on each article and outwitted their customers as often as they could. The public, however, tended to shop wherever it could "beat down" prices, and the spectacle was presented of those dealers who were apparently the least successful in maintaining prices doing the largest business.

3. *Changed conditions in retailing after the Civil War.*—Not many years after the Civil War retailing conditions began to undergo marked changes. For a while prices continued to climb; then came the turn and a slow subsidence extending over several years,

then an up curve, then later another decline and so on. These alternatives of favorable and unfavorable conditions shook most retail dealers out of their easy going habits. They had, in fact, to change their basis of doing business, or go to the wall. Accompanying the declines in prices had come a tightening of jobbers' credit terms to retailers and goods in many cases had to be sold at once to avoid large losses. The results were in a large measure beneficial. The necessity for quick stock turns awoke a keen spirit of competition, which has continued and grown to the present day.

Other developments of this post-war period are noteworthy. Of first importance was the increasing variety of manufactured goods. With the improvement of manufacturing processes, the disappearance of the frontier and the remarkable growth of American cities, household industries had declined. Many articles long produced by the family for its own consumption were now manufactured in factories and sold thru retail stores. Stores now carried larger and more complete stocks. Progressive retailers, however, soon discovered that they would have to turn their capital, that is, sell the goods, faster, if they expected to make the same aggregate net profit as before. Tho this condition similarly was a spur to progress.

A second development was the rise of the department store. This was the first important break with the past. Up to this time, every store, no matter how

large, had been managed as a unit. At length, however, the very size of the stocks forced the retailer to make some sort of classification. When he had done so and created departments to hold them, the wisdom of making each department independent and self-supporting was not long in making itself apparent. The large general store became a group of specialty shops under one roof.

This significant development in the retail field does not seem to have had any part in the beginnings of the chain store system which took place in this period nor in the rise of the mail-order method, which came later. Both of these originated in independent ways. But the growth of both was obviously accelerated by the earlier departure from retail precedent. Both merchants and consumers were alive to new currents and tendencies.

Finally, the reform of retail methods has received a profound impetus from the development of advertising. Advertising has quickened the popular buying instinct, taught the people to know value, developed new wants, facilitated identification and brought in mail-order competition.

4. *New basis of competition.*—These developments in retail selling have occurred within a comparatively short space of time, fifty years at most. They can be summarized as a change in the basis of competition. Generally speaking, the old basis of competition was price, the new basis is service. In present day merchandising, a store even when it gets trade by a low-

price appeal, as many of them do, is unable to hold it unless the low price is only one of the forms of service that the store offers to its customers. The service that holds business and draws trade from competitors may consist only of courtesy, a "thank you" attitude, and a willingness to please. On just such simple, yet important things as courtesy, great businesses have been built up and made to prosper.

5. *Necessity of retail store.*—Of the three methods of selling at retail—personal solicitation by salesmen or canvassers in calling on the consumer; by mail; and by the retail store—the latter is the most important because it is the most common. It exists because it serves the people; it needs no other justification. It will not give way to another form of retail selling unless the new form shall perform the service better. The retailer is the great middleman. More than all other kinds of middlemen combined, he creates time and place utilities: he makes it easy for the manufacturer to market his goods and for the consumer to get them. He is the main building of the clearing house between demand and supply.

REVIEW

Can you point out the big differences between the retailer of fifty years ago and the retailer of today?

Has the manufacturer, by increasing the variety of products, been an influence in bringing about these changes?

How has advertising played its part in this change?

What is meant by "service" in retailing?

Will the mail-order house and specialty salesman destroy the value and necessity of the retailer?

CHAPTER V

RETAIL TYPES

1. *Rise of the general store.*—Of the two types of retail store, the specialty or one-line shop, which is the ordinary store, must have come first in point of time, since men originally sold home-made goods from their own homes, but the more important type has for many years been the general store, doubtless in the beginning an evolution from the popular fair, bazar or traveling caravan. In the United States the general store is now confined almost entirely to the small towns and rural districts. Where we once had general stores in the cities, we now have department stores, which took their rise, not from general stores, as would seem most probable, but from the specialty dry-goods store. The department store is, in effect, a general store departmentized, but it is not so called. Similarly, tho it is not so called, the large catalog house is a general store, selling by mail. The city drug stores are taking on many of the characteristics of general stores and cannot be overlooked as a market for many things that were once sold only thru other kinds of stores, but they do not carry permanent lines of general staples and so are not general stores.

The reason why the general store is confined to the small community is because there is not enough business there to support a separate grocer, hardware dealer, shoe merchant and clothing store, tho enough business for one person combining all these and other lines.

2. *How the country general store holds trade.*—On the whole, the country general store is able to hold its own with the city specialty shops and department stores that solicit country trade, as well as with the catalog houses and mail-order departments of city stores. People in country districts find it more convenient to trade at a general store than to go to the neighboring city. Delivery is quicker, and any adjustments which become necessary on purchased goods are handled with less difficulty. Credit, also, is extended. As the great majority of people purchase in small amounts and cannot anticipate their needs to any great extent, the country store is called upon to supply most of the necessaries of country life.

The country dealer has an advantage over most city merchants in knowing his customers personally. If he has a reasonably agreeable personality, he will be able to hold his trade against the city store's most alluring offers. Furthermore, he can cut down his bad debts to a minimum because he can base his credit risks on personal knowledge of his customers. Being familiar with the demands of his trade, he can, if he wishes to do so, carry a stock that will meet its normal

demands. The fact that he does not always do so is no argument against the opportunity for it.

3. *Why the country general store loses trade.*—Some of the weaknesses of the country store are inherent, while others are avoidable. The typical country store carries small and restricted stocks, and can hardly do otherwise since its customers patronize it only for staples, going to the city, where there is a wider range of offerings, when in need of luxuries and "shopping" specialties.

It is clear, however, that the city draws from the country a lot of trade that the country general store might have if it conducted its business more efficiently. Slip-shod methods of advertising, poor salesmanship, poor buying methods, lax credit—these are some of the faults which prevent too many general stores from realizing on the opportunity they have.

4. *Opportunity of the country store.*—The opinion held by some persons that the country general store, as an institution, is doomed, is an erroneous one. The number of general stores is falling off in many states, particularly those of the Middle West, but this is due to increasing use of the automobile and the extension of interurban lines which lengthen what may be called the shopping radius and consequently do away with the necessity for the former number of retail stores. It is possible that some few of these general stores now favored by the new tendencies may turn into department stores where the town is already a large one, but it is not likely that development can go very

far or fast at this time. In any event, it is putting the situation into the hands of the stronger merchants and gives them a better chance than before to hold their own with the city stores and the mail-order houses. Many manufacturers have no other access to country trade except thru the country store. As an increasing number of country merchants realize their opportunities and responsibilities, adopt modern merchandising methods and improve in buying, selling and advertising the country store, they will, instead of dropping out of the merchandising system, become an increasingly important and profitable outlet for many articles of merchandise.

5. *Competitive strength of the specialty store.*—With the growth of a community there arises a demand for more service: a better variety of goods in each line and possibly lower prices than can be satisfied by the general store and the specialty or one-line shop, as for shoes, hats, men's furnishings, candy, etc., comes into existence. In the cities the tendency is even more marked. Tho checked for a time by the growth of the department stores, it is now proceeding faster than ever. The remarkable development of chain stores is a development of specialty shops, and while the department stores are virtually standing still, the other movement is going on at ever-accelerating speed.

6. *Convenience.*—One of the advantages offered by the specialty store is convenience. Department stores do a large business in men's and women's clothing,

dry-goods, household equipment and even in groceries and meats, but they are centrally located and cannot serve all neighborhood needs. These can only be met by the "corner" grocery, the local drug store, cigar store, haberdashery, jewelry store, hat store, hardware store, shoe shop. Then many persons, men in particular, do not care to do their buying in the big crowded store, but patronize by preference the small "handy" shop. Still other specialty shops cater to an exclusive trade. The appeal of the specialty shops in general is that of complete stocks, personal service, exclusive designs and immediate delivery.

7. *Complete stocks.*—The largest department stores may carry a wider variety of goods in any line stocked than the average specialty shop, but taking the types of store and the lines as a whole, it can be said that the advantage is with the shop. The proprietor of an independent store who gives his entire thought to one class of goods is generally able to offer customers a larger assortment than the salaried buyer for a small section of a department store.

8. *Personal service.*—The proprietor of the specialty store is in a position to offer his customers a more courteous and intelligent service than it is possible for the average department store employe to do. The independent merchant knows many customers personally; he relies less on transient trade than the department store does, and he is better able to adapt his stock to individual requirements.

The problem of infecting the sales staff with his

own taste, ideals, courtesy and enthusiasm is much simpler for the proprietor of the specialty store than it is for the department store. Employes in a large store are subject to many different influences that work against the buyer's will and the store policy. In a small store, the few clerks are directly under the proprietor's eye and closely associated with him all the time. Consequently he can easily stamp them with his own individuality and make the store in every particular reflect it. If it is agreeable, this multiplication of it is not only an asset to the owner, but something that the public appreciates consciously or unconsciously as service.

9. *Rapid turnover.*—Knowing his trade more or less intimately and being able to adjust his stock readily to known needs, the owner of a specialty store is frequently able to carry relatively smaller stocks and turn his capital faster than the department store buyer, even tho the latter's market is wider and is stimulated by newspaper advertising and bargain sales. The reputation for rapid turnover in most lines rests with the department store, but plenty of exceptions are on record and in general it may be said that there is no inherent reason why the specialty shop, well located and well managed, should not move its goods faster than any other kind of retail agency.

10. *Low expenses.*—For the reasons stated, the specialty store seems in most cases to have secured greater economies in operation than the department store. Investigations covering ten different kinds

of specialty stores show that the average cost of doing business in specialty stores ranged from 17 per cent in groceries to 26.81 per cent in jewelry, while similar costs for the department store were 26.50 per cent (34 per cent for one department store in New York City). The percentages, based on total sales, were as follows, being taken in part from Sammons' "Keeping Up With Rising Costs," from data furnished by the Curtis Publishing Company and from other sources:

Groceries	17.00
Vehicles and implements	18.44
Variety goods	18.50
Hardware	20.41
Clothing	23.27
Dry-goods	23.05
Shoes	23.30
Furniture	26.51
Drugs	24.65
Jewelry	26.81
Department stores	26.50

The figures are naturally only approximate and represent averages, but as their value lies rather in the comparisons which can be made and as there is no reason to assume that the relations of the various lines would be substantially changed by further investigation, they may be taken as dependable and helpful. The cost of doing business is made up of items of rent, interest on capital, salaries, lighting, cost of goods, etc. The percentage of the cost is found, of course, by dividing the cost by the volume of sales.

Rent with specialty shops is sometimes a smaller item than with specialty departments, altho this is not the case with the big corner drug stores in shopping centers. If the specialty store owner has the advantage arising from smaller cost of doing business, he should be able to pass the advantage on to his customers in the form either of price or of service, thus increasing his competitive strength as against that of the department store, and many specialty shops do so.

11. *Points of weakness in specialty stores.*—Individual specialty stores are vulnerable at three points. These are the limited opportunities for trade, buying and organization. The first point is a limitation in location but not in proprietorship; the second limitation, that of buying opportunity, may be and in many cases is being overcome by cooperation, and the third difficulty, that with respect to organization, can be made to yield to proper management. They will be considered more in detail.

12. *Limited opportunities for trade.*—The specialty shop is essentially a local store. Almost always it draws most of its trade from persons who live or work in its vicinity. The business is therefore generally limited. There are, however, distinguished exceptions, stores which have made for themselves a reputation for service or exclusive styles and which draw people from other sections. Every line in every large city has at least one such instance. Sometimes these stores confine their advertising to direct-by-mail;

at other times they use the newspapers and printed display.

Moreover, it should be borne in mind that the speciality store, too, may do business by mail and extend its territory in that way. Furthermore, tho the neighborhood and other conditions may render it impossible for the store to expand locally, it may expand in other localities by the addition of other specialty stores and become a chain. In other words, the limitation is more imaginary than real.

13. *Limited opportunities for advertising.*—As a specialty store does a business virtually confined to one neighborhood, the profitable use of newspaper advertising is generally precluded. A small neighborhood store, appealing at the most to a very small percentage of the total circulation of a newspaper, that is, its whole number of subscribers, its owner would have to pay for so much "waste circulation" of the newspaper, which would be the circulation going to people who could not patronize him, that it would not pay him to use it.

On the other hand, the high class specialty store which is centrally located may use several kinds of local advertising, including newspaper, even tho it cannot afford the large space taken in the last named medium by the department store.

As is the case with other forms of business, the buying public which the store has to reach determines the kind of advertising the specialty store shall use. For the village clothier, the medium is the village

weekly paper; for the neighborhood haberdashery in the large city, it is advertising by mail, and in unusual instances the daily newspaper; for the exclusive shop in a well-known shopping center it may be special mail announcements, booklets, displays, painted bulletins, newspapers, or at times an advertisement in some high-grade magazine with large local circulation. Some specialty stores spend little or nothing in advertising; others use personal solicitation.

14. *Limited lines.*—While the lines of the average specialty shop may surpass the same lines in the department store, its offerings are limited to those lines. If a customer has several things to buy, he or she may not care to shop around; it is a convenience to be able to buy them all under one roof. Convenience may thus outweigh considerations of service, price and variety. This is a more or less constant condition. It does not present insuperable difficulties. The prescription for it is more service, better lines, attractive prices and the advertising that makes all these known.

15. *Weakness in buying.*—The individual specialty store is certainly at a disadvantage with the department store when it comes to buying in quantity. The department store can afford to have buyers in most of the large markets constantly on the alert to pick up bargains and new lines of goods. The small specialty store cannot afford this. Even if it combines with stores in other cities to maintain a common buyer at a central market, the service is not likely to be so

efficient, so free handed and intelligent in style lines and novelties, at all events, as that of the buyer who serves only one house and one policy. In jobbing lines the situation may be different. In the second place, even tho any one department of the department store may not sell as much merchandise as the competing speciality shop, yet because of the prestige that surrounds a department store, some manufacturers are willing to give it an extra discount in order to place their goods on its shelves, and this of course works against the specialty shop in price. Against this buying disadvantage, the specialty shop sets the lower cost of doing business, and its personal service.

16. *Poor management.*—This is the one compelling cause for the poor business which so many stores do and which many times makes department store methods shine in comparison. Too many storekeepers do not know how to make their stores attractive, do not know how to bring people in, do not know how to buy or sell, keep their stock or price their goods. The chief and practically the only competitor of the average retailer is himself. When he knows his business as well as the department store proprietor knows his, he can hold his own under any sort of competition the department store can offer.

17. *Future for specialty store.*—Most of the striking developments in the retail field have been made by the department stores, the chains and the catalog houses. Only a few small retailers—a few thousands among the hundreds of thousands—have

wholly seen the light and begun to work aggressively along the right lines. The rest are certain to follow and the revolution that will then occur will make what we have been seeing look small in comparison. By developing its individual service, by capitalizing its individuality, by the speedy and the systematic adoption of new experiences and especially by cooperating with its sources of supply and selection of fast-selling lines, among them those of nationally known brands, the small merchant is assured a future of enduring prosperity. The small store is essential for the manufacturer seeking an outlet for his goods. If these goods are the kind that require wide distribution, the specialty store is almost the only trade channel open to him. Hence the specialty store has not only its own power to depend upon, but that of the manufacturer as well.

Manufacturers who trade-mark and advertise their goods find the specialty store easier to sell than the department store for that very reason, namely that whereas the department store wishes to stand alone and subordinate every interest to its own, the small merchant, if he is progressive, realizes that he can take the good-will attaching to the national advertisers' products, add the good-will of his own little store and make a combination that is hard to beat.

18. *Rise of the department store.*—The department store, which is the third type of retail institution, probably originated in France. It was quickly transplanted to the United States in the period following

the Civil War. Today it is found all over the civilized world. Its growth and the accompanying problems and possibilities have played a strong part in breaking down trade traditions and complicating the process of marketing.

19. *Two kinds of department stores.*—Department stores fall into two classes: the common kind, in which there is one ownership for the whole store, whether an individual, partnership or corporation; and also another type, in which each department of the store is separately owned, the store thus really consisting of a number of separate shops all covered by one roof and operating under one name. In such a case, the owners of the separate stores contribute to a fund to pay for the common or "store" activities, such as deliveries and advertising, and pay rent according to the space and floor occupied, but retain individual control over the sales and profits of their respective departments. Between these two types there are a number of variations. A common form in some parts of the country is the store having individual or corporate ownership, with few or many departments rented out to or owned and operated by others.

20. *Why the department store is popular.*—The popularity of the department store is evidenced by its early rapid growth and generally continued prosperity. It is popular because, on the one hand, it offers many conveniences to patrons, and a ready return to capitalists and merchants on the other.

The great convenience afforded by the department

store is its concentration and display of goods. It is possible for a customer to do his or her shopping, when it is extensive, in a minimum of time. The fact that so much of the stock is in plain view is another attraction. It helps the public to make up its mind, assists it in determining and revising its wants. The department store is a huge bazar and fair under one roof. It is not precisely a convenience to customers that a crowd goes with it, but unquestionably the crowd is one of the prime attractions of the big store. Unless it is oppressively dense, most people like it, partly as a spectacle, partly as a drama in which they have a part. The big store is a show place to which people resort and eventually buy. Big store proprietors foster this idea. Some even provide concerts.

21. *Elements of department store strength.*— Whether the department store does or does not offer superior economies of operation seems to be, in the abstract, a debatable question. The department stores have assiduously propagated the idea, but the sworn testimony of department store managers in a governmental inquiry does not support it. The only certain advantage that was claimed by them over the one-line store is in buying. Department stores, having large cash resources, are able to get the best in the market at the best market prices, and also frequently to pick up odd lots and manufacturers' surplus production that do not get to the general market at all. This is undisputed and it is one of the reasons for the strength of the department store with

the public. But all other so-called advantages over the small store which they may secure in whole or part in this or that individual case are problematical in the aggregate. Whether the saving from close quantity buying offsets the undeniable higher cost of doing business is yet to be demonstrated.

The greatest growth of the department store was in the last decade. The rate of growth has not been maintained. There has, in many cases, been a recession due to the fact that the movement was overdone, and also to the fact that the specialty shops which at first had been half-paralyzed with fear at the swift development of the big units, had studied them at close range and resumed their competition with recovered equanimity. We may regard the situation now as one of balance. The question of relative advantage then becomes one of relative executive abilities. A good department store manager may attract trade from specialty shops poorly run. Conversely, progressive one-line merchants may snap their fingers at the big, cumbrous, departmentized and over-organized establishment.

Regarded from this point of view, the department store offers to an enterprising merchant possibilities for a number of economies in operation which, small perhaps in themselves, produce in the aggregate a sum which may represent a satisfactory return on the money he invests in the business, more money, it will be remembered, than he can invest in a single specialty shop.

22. *Economies in combination.*—The first possibility is that, generally speaking, the overhead expense of conducting two departments under one roof and one manager should be, and other things being equal, is, less than when they are separate stores under separate ownership. The same is true of three, four, and an uncertain number of additional departments. It is not true of an indefinite addition, because after a certain number of departments are added, the size of the building and the number of floors increase, which means more rent, more difficulty in securing ease of movement or flow of traffic, less effective supervision, additional burdens of management, and similar problems.

23. *Possibilities in handling low-salaried help.*—A second opportunity for saving is in having low-salaried employes. But this is a certain economy only in a department store of moderate size. The lower the scale of responsibility in employes, the more is supervision required, and the larger the chain of supervision, the less effective does it tend to become. That is the situation as it stands. It is not hopeless. There will certainly be great rewards for those who master it and hundreds of department store managers are working on it.

24. *Advertising and service advantages.*—Size and departmentization helps the advertising by distributing its costs over more articles and sections. Customers, for example, come in to buy goods in one depart-

ment that have been advertised, and also buy goods in other departments that were not advertised.

Again, the size and attractiveness of the large store and its stock make shopping a habit with the public. People shop not only to satisfy present needs but also to anticipate wants and acquire new ones. Everything is done by the up-to-date stores to make it easy for the shoppers. There are rest and waiting rooms, restaurants, concert halls, hair dressing and manicure rooms, telephone booths, and all sorts of comforts and conveniences that could not be offered by a one-line house. These cost money, but they attract, and that is what they are for.

25. *Credit on a better basis.*—As a rule, the department store has its credits and collections on a far better basis than the little shop, which either does not dare to give credit at all, or else has many times to give it in excess and suffers abuse. Some department stores do not allow charge accounts, but instead persuade their patrons to maintain cash deposits with them, against which their purchases are charged in the same way as against a charge account. The stores pay interest on the deposits.

The department stores themselves are, however, much given to one kind of laxity when it comes to settling their own bills. This does not consist in doubtfulness, but in the stores taking cash discounts while settling only in 30 days. This gives them the use of their creditors' capital for 20 days or more

extra. This advantage will disappear with the free establishment of the trade acceptance.

The very magnitude and urgency of the problems of the department store has led their management to give special attention to them and to introduce short-cut methods and systems that save time, labor and money. The department stores of the country are now nationally organized for the exchange of experience.

26. *Better management.*—Department stores not only require but can afford managers of the highest type, and this is one of the greatest promises for their future. The problem of department store progress is now altogether a matter of management. It is possible that one solution will lie in the cultivation of the service idea in the popular mind. For fifteen or twenty years, department stores have been preaching the doctrine of cheaper prices by means of advertising and bargain sales, and some of them are beginning to see that it was a mistake. Bargain sales are going, and price advertising has seen its best day. The change is slow, but it is observable in many directions. It will possibly be discovered that most of the patrons of department stores like to shop in them almost, if not quite, irrespective of prices, and that when the reasons for the preference are appreciated and exploited in the advertising, they will be more efficacious than the overworked and heavily discounted price appeal that is now being so largely used.

27. *Manipulation of departments.*—Many, possibly

most, department stores under one ownership and control run one or more departments at an intentional loss for the same reason that they cut the prices on certain well-known articles, namely to use as "sales leaders." The effect of doing this is not only to attract to those departments customers from whom other trade will likewise be secured, but to create in the public mind an impression that all the goods in the store are similarly low-priced. This practice, however, has been criticized, and it is not in harmony with the most progressive thought in the trade.

28. *Financial advantages.*—From a financial point of view, the large department store has many advantages. It is well known nationally and can sell its commercial paper in any part of the country. Manufacturers offer it greater discounts and longer terms, which make financing less difficult. On the collection side, the department store is better equipped than the small store in handling customers' accounts and is far more independent in making collections. This facilitates the use of the working capital.

29. *Elements of weakness in department stores.*—The advantage of location which most department stores enjoy is neutralized to greater or less extent by the higher rent they pay. The same is true in respect to the crowds that come and are served: they are attracted by expensive advertising, fittings, comforts and luxuries. The specialty shops already have the advantage in respect to the cost of doing business, as has been shown. If the competition should become

one between greater personal service and greater mechanical service, no doubt the department store would fight a losing battle, because the mechanical service of convenience, luxury and the rest comes high, while greater personal service costs little more than an increase in intelligence. This is the department store's problem.

The scarcity of goods occasioned by the war gave the department stores especially, an opportunity and a reason for restricting the privilege, which had been greatly abused, of delivering goods on approval, or of return. There is a question whether this gain will be permanent, whether when the market is again flooded with goods, competition will not bring this same extravagance of method.

The great size of a department store offers unusual opportunities for wastes and inefficiencies. Constant supervision of employes is impossible, and there is always danger that the ideals and policies developed by the high-priced manager may be wrecked by the $10 or $15-a-week saleswoman who neither understands nor cares about the store spirit and purpose. Dealing as it does with thousands of customers thru low-salaried employes, the business must be conducted, as we have already seen, on an impersonal basis. It is possible for department heads and salespeople to build up a permanent clientele based to some extent on personal relations no less than on reliable goods, but not to the same degree as in the case of the specialty store.

The competition existing between department stores, which is greater than that between department stores and specialty shops, often brings the expenditure dangerously near the point of no profits. Excessive bargain sales are responsible for the wrecking of more than one store.

30. *Expensive delivery systems.*—The cost of delivery systems is every year becoming a greater burden to the department store, until it seems that something will have to be done in the way of economy, either by throwing the burden of the service on the customer by making a delivery charge to cover in whole or part the average expense, which is said to run from five to seven cents a package, or else by giving up their own individual delivery service and either operating one in combination or else patronizing an independent one that shall be developed. The present delivery services are really a part of the advertising, but it is doubtful if the effect in prestige is not greatly overrated.

It is true that the burden of delivery problem has been made lighter by the introduction of motor trucks and various automatic carrying and loading devices. Modern department store equipment now includes gravity and belt conveyors, spiral chutes, freight elevators handling ten-ton trucks and spare truck bodies for loading while the trucks and other bodies are in commission.

REVIEW

Is the country general store fighting a losing fight? What is likely to be its status in the future?

A well-managed down-town hardware store finds itself in competition with a neighboring department store, which has recently installed a hardware department. Is the specialty store likely to compete successfully? What advantages has it in getting and holding trade?

An outlying drug store in a city of about fifty thousand, tho a good store with a fairly able manager, sees much of its trade going to the down-town department stores and chain stores. What are ordinarily the reasons for such a condition?

What makes the department store strong? What present tendencies hinder the growth of department stores?

CHAPTER VI

CHAIN STORES

1. *Rise of the chain store.*—The foundations for the chain-store system of retailing were laid during the period just subsequent to the Civil War by the Great Atlantic and Pacific Tea Company. For many years, it had the field almost to itself. New chains in the grocery and other fields developed, but as the growth was slow and the units were small, the significance of the new principle of operation was not recognized and the matter received little attention from the other retailers or the jobbers, manufacturers and trade journals. The basis of chain store success is quantity buying and a centralization in management which permits many economies over the methods in ordinary use in retail stores. When a retailer has mastered the detail of store management, he finds it almost as easy to direct two, three or a dozen stores as one. It is largely a question of picking subordinates and watching them. All subsequent growth depends merely on the elaboration of the same principles.

Public interest in chain stores was first aroused by the spectacular rise and rapid development of the United Cigar Stores Company, the equally rapid

spread of five and ten-cent store chains and the discovery that the principle was applicable and was being applied to drug stores, restaurants and many other kinds of retail establishments. The development seemed to burst into sudden flower during the first decade of the present century and has continued at an increasing rate up to the present time. A number of the largest chains have become national in scope, but most are local or sectional and are largely confined to the East; many small communities are still unacquainted with them. They naturally flourish with more luxuriance in the more populous centers, but country towns and even country districts have been reached by some forms, in the last named case thru the traveling wagons of some one or other of the big grocery chains.

2. *Kinds of chains.*—Four distinct types of chain stores are observed. First come the retail chains proper, such as the F. W. Woolworth Company, United Cigar Stores Company, Childs Company (restaurants) and the Great Atlantic and Pacific Tea Company. They were organized as retail companies and are still predominantly such, tho they may manufacture more or less of their product. Next in importance are the *manufacturers' chains,* which include such stores as Browning, King and Company (men's clothing) Huyler's (candy), W. L. Douglass Shoe Company and the Singer Sewing Machine Company. A narrow interpretation of the term would limit chain stores to stores under one ownership and direc-

tion such as the preceding types, but the term is usually made to include also the retail *cooperative associations* such as the United Drug Company (Rexall stores), the American Druggists Syndicate (A. D.S.), and the United Buyers Service for variety stores. Finally, there is the *consumers' cooperative* type of retail chain which consists of several stores. Such chains are extremely powerful abroad, but are only now being organized in the United States.

3. *Some better known chains.*—The importance of the chain store can be judged from the number of stores operated by some of the better known systems in 1918. The Great Atlantic and Pacific Tea Company (groceries, national in scope), almost 4,000 stores; American Stores Company (groceries, sectional, the far East), about 1,200 stores; Louis K. Liggett Company (operating Riker-Hegeman, Riker-Jaynes and Liggett's drug stores in New York and New England), 175 stores; United Cigar Stores Company (national), 1,228 stores; F. W. Woolworth Company (5-and-10-cent, national), 1,000 stores; S. S. Kresge Company (5-and-10-cent, national), 163 stores; Baltimore Dairy Lunch (national), 120 lunch rooms; Childs Company (sectional), 91 restaurants; J. C. Penney Company (smalltown department stores, sectional, the far West), 197 stores; Walk-Over Shoes Co. (national), 60 stores; Regal Shoe Company (national), 55 stores; Huyler's (candies, sectional, East), 59 stores; W. T.

Grant Company (25-cent stores, sectional, the far East), 32 stores.[1]

Some few years ago a list was prepared of over fifty different lines of business in which chain stores were found. Apart from the corporations mentioned in the preceding paragraph, the list gave some other important chains with the number of stores at that time as follows: James Butler (groceries, local, New York), 238 stores; Scotch Woollen Mills Company (tailors, national), 117 stores; Gately's Credit Clothing Company (national), 115 stores; Union News Company (news stands, sectional, the East), 900 stands; Singer Sewing Machine Company (national), 800 stores.

Notable also are the two great retail buying associations in the drug field: The United Drug Company (Rexall stores), stock in which is owned by over 7,000 druggists in all parts of the country; and the still more extensive American Druggists Syndicate, formed by an association of 27,000 retail drug stores. Both of these chains, while known partly as cooperative buying organizations, also engage largely in manufacturing, and the Rexall stores have advertised their products nationally.

4. *Tendencies shown in chain-store field.*—In the cities the progress of the chain-store movement has reached a new stage—consolidation. For example, the large Kroger Grocery and Baking Company of

[1] The information here given was courteously furnished the editors by the respective organizations.

Cincinnati absorbed first the 60 stores of a local competitor and later another rival chain in St. Louis. In 1917, five grocery chains in Philadelphia effected a merger under the name of The American Stores Company, with a capitalization of $20,000,000. These five chains had nearly 1,300 stores and during the previous year had done a business of $50,000,000.

A second development is the further expansion of the United Cigar Stores Company and other chains by means of agencies. This gives the United Cigar Stores, for example, an immediate, broad, national market of its own brands and enables it to advertise them nationally which it could not do before on account of the limited number of stores it had. These agencies thus become in certain respects its manufacturer's chain. Some chain store systems have added a mail-order business, among them being the Kresge Company of Detroit and the J. C. Penney Company (Golden Rule Stores). On the other hand, the Larkin Company of Buffalo, which for years has done a large mail-order business only, has established small retail "serve self" stores in Buffalo, Peoria, Chicago and Philadelphia.

One of the most interesting tendencies of all is the revealed popularity of the Piggly Wiggly chain of "grocerterias" or self-service groceries with headquarters in Memphis. This chain not only operates its own stores at a cost of 10 (in some cases even 3½) per cent as against a usual 12 to 20 per cent for independent groceries, but it licenses others to do

business under the system and sells them the equipment. These stores, having no salesmen, naturally specialize in trade-marked brands, which sell themselves. Standard prices are cut, but no attempt is made to attract people on that basis. Apparently, the self-service idea is a permanent contribution to retailing.

5. *Elements of strength in chain stores.*—As is the case with the other large retail units, the chain store system possesses a large number of elements of strength balanced by other elements of weakness. Its phenomenal success over the short period of its development renders a comparison of these two sets of qualities a matter of much interest.

6. *Strength in financing.*—Comparatively few of the chains have had any help from Wall Street or the investing public in financing themselves. Some of the very largest, like the Great Atlantic and Pacific Tea Company, are close corporations. As a rule the successful chain has too good a thing to share it with any banker or promoter. When the large chain will make a sacrifice of profits involved, it is because the compensating advantages of rapid development are too great to be jeopardized by delay. There have been a number of promotions of new chains, but none has made an unusual success and most of them have already failed. All of the chains that are successful today started with one store and grew slowly in the beginning, while financing themselves out of their earnings.

7. *Advantages in picking sites.*—The chains with their many stores and larger experience have a great advantage over the independent retailer in choosing locations for new stores. As *Printers' Ink* says:

> When the individual retail merchant picks out a site, the rental usually makes a big hole in his estimate. Unless he has real estate experience he does not drive so good a bargain with the landlord. Most merchants, taking the big and little together, have real estate transactions only once or twice in their lives. They are likely to be doubtful, cautious and conservative in selecting sites, renting and buying. The chain system, on the contrary, acquires experience as it grows, and comes to capitalize this into standard practices. It is able to select its cities, its neighborhoods, its sites, with speed and precision. The dickering for lease or sale is done by experienced men.

In short, the chains know the best locations and get them. Frequently they take leases years ahead of occupation. In order to get the corner sites it prefers, the United Cigar Stores Company sometimes leases or even buys an entire building, leasing the portion it does not require. The realty operations of the United Cigar Stores Company, conducted thru a subsidiary company, are highly profitable. The Company was said some years ago to be selling its products at cost and paying its dividends solely out of its real estate transactions.

The common method of fixing on a location in a city is to count the passing crowds, say with a register, and then consider the figure in the light of the crowd's character, whether high or low class, local or transient, rush or steady. One side of a street

is generally better than the other. Information of this sort is of little use to an independent retailer, but it is a strong weapon in the hands of the chains.

8. *Standardization of stores.*—The uniform store fronts of the United Cigar Stores, of Woolworth's, the Owl and the Liggett drug stores give each individual store a prestige and attractive quality that it would not have alone, and that the independent store does not have. Inside the store, standardization is of the greatest help in arranging the display of the goods, selling them and taking stock. A United Cigar Store clerk could walk into any United Store in the country and find himself at home in it. The arrangement of stock is practically the same in all. This was primarily to assist in the opening of new stores and to facilitate the taking of inventories, but it helps in all ways. When all the store interiors and windows are standardized, the company can afford to secure a high class display man to work up ideas for them systematically. The ordinary dealer has no such opportunity. It is a chain advantage.

9. *Standardization of selling methods.*—The chain completely outclasses the ordinary store in its selling methods. The average independent proprietor may be an able salesman, but few of his clerks have ability and still fewer get any adequate instruction and drilling in sales procedure. The chains have reduced this instruction nearly to a science. The man in charge of the work is generally an officer of the company. Standardization of methods reduces to a mini-

mum the initiative required of salespeople and also dispenses with a large amount of supervision. Under such circumstances, comparatively low-salaried clerks may therefore be employed in some types of chains for both selling and supervising, and this is one of the objects of standardization. In many chains, however, the selling ability required and the salaries paid compare favorably with those of the independents in the same line.

10. *Buying advantages.*—It is in buying that the chain has the greatest advantage over its independent competitor. The large volume of its purchase makes it a preferred customer with many; it gets the first chance at many lots the independent stores never see. Of course, it buys direct and can often swing deals the jobbers cannot touch. In many lines, the chains offer a ready market to manufacturers with surplus stock on their hands which they wish to turn quickly into cash.

Because of their ability to buy direct from manufacturers many chains credit themselves with a jobbing profit on their books and bill goods to the individual stores at a price to cover it. In this way, they do an excellent business on their jobbing profit alone, without considering the profit made by their stores.

A large chain store system can employ high-priced, skilful buyers in all important markets to pick up bargains and novelties; it can command sources of supply and obtain goods when independents find it

impossible to get them; and it can afford to take chances on new kinds of merchandise which the independent would be unwilling or unable to take.

Different methods of buying are in vogue. In most chains, all of the buying is done at headquarters. In other chains, in which Liggett's Drug Company is a type, while most of the buying is done at headquarters, the store managers are allowed a good deal of latitude in the way of special deals and the competition between the different stores is often productive of great enterprise and excellent results in service. It was a chain drug store manager in New York who added umbrellas as a permanent line and another who made a market for nuts and eggs.

The chains secure all the usual advantages of big buyers—"inside prices," secret discounts, long "datings" on bills—goods being delivered, for example, in January and the bills dated March 1,—"cash discounts" in 30 days and more, etc. If a chain system turns its stock twelve times a year—and many of them do better than that—and discounts its bills in thirty days as "cash," it is actually settling "as sold," which is certainly a great advantage over the independent who can get his cash discount only when he pays in ten days and who may not be able to dispose of the stock for three or four months.

11. *Pricing.*—Quantity buying and rapid turnover enable the chains to fix their prices at a generally lower level than that of the average independent store. As to cutting prices on standard, advertised

brands, the practice is not uniform. Probably most chain stores have been confirmed price-cutters. But even before the war, there was a marked tendency developing to get away from price as a major appeal. Like the department stores, the chains had begun to feel that with advantages in location, size and variety of stock and service to serve as a solid basis for good-will, it was a mistake to continue harping on price, which is a wabbly foundation at best. Many chains now meet cuts but do not inaugurate them.

12. *Use of loss leaders.*—When the chain store sacrifices the price profit on standard nationally advertised goods, it intends to make up the loss from profits secured on its own brands and on unbranded goods sold to the people attracted by the cut price offers. Some chains offer these "loss leaders" constantly, others do so only at times. The practice is not confined to the chains. As we saw, department stores, mail-order houses and even independent retailers also follow the practice. The object is to create an impression that all goods are similarly low priced.

13. *Low expense of operation.*—Chain stores are commonly thought to operate on a low expense basis which makes possible low prices to consumers. This is more or less true. The chain store, for example, usually carries a minimum of stock, replenishing it constantly from a central warehouse. The capital allotted to each store, therefore, is not tied up in excess goods. Storing goods in a warehouse is cheaper ordinarily than storing them on the shelves of a store.

Where several units of a chain of stores are located in one city, the city superintendent has better facilities for accurately measuring future demand and making ample provision for it than has the buyer for a single independent store.

14. *Other advantages.*—Many chains do not deliver purchases. The Great Atlantic and Pacific Tea Company, for example, makes deliveries from its ordinary stores and does not make deliveries from its newer type, or "Economy stores." When chains make deliveries it is usually only for purchases above a certain amount, while a few make a charge for delivery. The great majority of chains do a strictly cash business. This saves the cost of keeping book accounts and making collections, and avoids credit losses.

While the general office expenses of a chain, such as salaries to higher officials and to buyers, are high in the lump, they are small per unit, that is, when distributed over all the stores. No figures are available to show what these are compared with the expenses of the individual independent. They vary greatly in different lines. Piggly Wiggly self-service groceries, as said, do business at a reputed cost of 10 per cent as against a usual 12 to 20 per cent for independent groceries. A chain of small dry goods stores, it is asserted, has done business on an expense basis of 8 per cent. As compared with an expense basis of from 15 to 25 per cent for independents this is exceedingly low. Chain cigar stores are said to have

done equally well. But these are exceptional records in most fields. It is not likely that the average chain store expense, however, is much below that of the independent store, since it is not now killing off the independent as fast as was the case a few years ago. Of course, some chains operate on a higher expense basis than that of the independents, such stores for example as the Page and Shaw candy stores, or the Park and Tilford groceries, which cater to high-grade customers.

15. *Quick turnovers and low profits.*—The chains early recognized the A. B. C. of good retailing—small profits and quick sales with a resultant rapid turn of capital. As an illustration of the importance of this principle, let us imagine a store that normally carries a stock worth $5,000 at the selling price and turns it four times a year with an average of 40 per cent profit on each sale. The gross profit on one turnover of stock would be $2,000 and the total yearly gross profit $8,000. But suppose the management got new light on merchandising and concluded to take, not 40, but only 30 per cent gross profit on each sale and that sales increased on account of the lowered price, as they generally do in a competitive market, thus turning the stock to six instead of four times a year. Its annual gross profit in this case would be $9,000 as against $8,000 in the former instance. The increase in net profit might be even greater, since the percentage of cost of doing business goes down with every new turn.

The chain stores' rate of turnover appears to still greater advantage when compared with that of independents. For example, the average independent grocery store turns its stock ten or twelve times a year; the Bowers chain of groceries in Memphis turn theirs forty times a year. The average grocery takes a gross profit on each sale of 25 per cent and a net of from 5 to 8 per cent; the Bowers stores take a gross of 12½ per cent and a net of 2 per cent. The average drug store turns its stock twelve times a year. The more alert independent tobacco stores turn their stocks sixteen to twenty times a year. Some of the United Cigar Stores, however, have shown stock turns of fifty times a year, or almost a turnover a week.

It is well to bear in mind that the rapidity with which the chain store turns its stock is not due solely to low prices. Store service, the quality of the goods, and sometimes advertising have their influence.

16. *Strength of service.*—The chain stores lay no more stress upon price than they do upon service. Many chains give particular attention to complaints and in other ways endeavor to satisfy the customer and encourage his continued patronage. The courteous "thank you" attitude of some chain-store clerks is noteworthy.

This sort of service is not confined to chain-store selling. It was in practice before the chains came into existence. The chains, however, have developed it consciously and systematically. Any independent

dealer with a right conception of modern merchandising can do the same.

17. *Strength in organization.*—Chains are organized in two ways:

If they make their appeal on a basis of price, the emphasis is laid on methods rather than on men. One chain store official has said: "The world has been trying to get things done by selecting men and trusting them unaided to do its work. Instead, someone in authority should first find the thing to be done, then find the best way to do it, and finally teach the men to do it in that way." This is the essence of scientific management. When too strictly applied, however, this principle removes almost all initiative from the salespeople and concentrates it at headquarters, on the theory that the development of mechanical efficiency in an organization is more valuable than the development of individual initiative. The danger of carrying this view to the extreme is that it may deprive the work of much of its interest and so impair the efficiency it is designed to promote.

The second form of organization grants to the store managers and salespeople a large measure of individual initiative. It tries to develop ability and to stimulate personality in every way without losing any of the efficiency that comes with careful organization.

Both types of organization are alike in having high-salaried men in executive positions to study, plan, and direct the work of subordinates. This advantage the independent can seldom command. While the

high-salaried executive in the home office may not be able in every instance to have the subordinate in a distant chain store carry out his policies to the letter, yet he can as the result of his cooperation with the individuals, put their performance on a higher level than they would be able to reach without assistance. The cost of his services is spread over many stores and adds little to the expenses of any.

18. *Advantages in advertising.*—The chains have a number of advertising advantages. The mere number of their stores, their standardized fronts, window displays and private brands are a continual advertisement suggesting popularity and low prices—two things which always attract trade.

If the chain advertises, it employs the services of a high class advertising manager to prepare and to place advertisements for all the stores. He also aids the local store manager in preparing occasional advertisements for purely local purposes. Some chains do not advertise in newspapers or magazines, but use premium coupons and trading stamps either to pocket an extra profit on the coupons, or else pass the saving on to the customer in the form of greater premium value.

As compared with the chains, the independent retailer is at a disadvantage in advertising. He often is inexperienced and has no one to analyze his advertising problem, or advise him how to plan his advertising copy, where to place it and how often or how

long to use it. Besides, he may not be able to advertise on a large scale.

19. *Advantages of accounting methods.*—Finally, the chain has a great source of strength in its accounting system. Accounting is made use of constantly in directing selling campaigns and in checking up and comparing the stock and sales of separate stores. It shows which lines are profitable and which are not, directs attention to wastes, gives accurate costs and presents other data which are vital to successful retailing.

This is a place at which many independent retailers fall down. Too few have any real knowledge of accounting methods. Most druggists, for instance, are primarily professional men and are merchants only incidentally. Many retail grocers have formerly been store salesmen and have hardly a speaking acquaintance with bookkeeping. Besides thousands of persons have opened up stores as a means of investing their savings tho having at the same time no business training.

This condition of affairs in the retail field is so serious an impediment to manufacturers depending upon it for the distribution of their goods, that many of them have undertaken individually, collectively, and thru what influence they could exert on the trade journals and the universities to better it. Since sound principles of accounting are at the very root of sound business, most of their efforts to help have taken the

form of systematic instruction in the principles. This will tend to redress the balance now swinging against the independents.

20. *Weaknesses of chain stores.*—Few chains that have once reached a paying basis ever fail. The very difficulties in the way of expansion point out the safeguards. But many fail in their attempts to start. The causes of these failures may be reduced to one, precipitate and premature expansion. Every chain that is successful today started with one store and developed slowly. The reason for the slow development was not so much a lack of capital in any case as the need of perfecting the required system of management or supervision and the development of local managers. Once these difficulties were surmounted in any chain, the expansion became safe and rapid and capital was procurable.

The problem with respect to local managers is in the case of many chains one of making a low-grade man do high-grade work, in that of other chains of keeping high-grade men at low-grade salaries. In the one case, this is accomplished by a system of standards. In the other case, the high-grade men sacrifice something in salary and immediate opportunity in order to get the splendid training and also to learn the chain methods. Both cases reveal the weaknesses of the chain. The strain on low-grade managers with increasing competition can only be lightened by increasing supervision, which is expensive. The increase of standardization and super-

vision turns the high-grade employes into independent competitors.

The same condition applies to all the employes. The chain can offer but few opportunities for much advancement, since the tendency is towards centralization, standardization and reduction of costs.

21. *Meeting chain-store competition.*—The independent retailer without previous experience in chain store competition generally views the approach of the chain store as a personal calamity. In this he may not be altogether wrong. It depends upon how good a merchant he is. The chains certainly have killed off hundreds and thousands of independent retailers. But most of these were not abreast of the times. The wideawake retailer need not despair at the menace of the chain, but he will certainly be wise to act before the chain store entrenches itself and steals away his trade. He should lose no time in joining a buying association or taking some other steps to secure his stock more cheaply. He should copy all he can of the chain store's strong points and invent new services to take the place of those he cannot adopt. The greatest help will be found in trade association meetings, where ways and means of combating the chains are continually being discussed and information of great practical value exchanged. These associations are the greatest competitors the chains are likely to meet in the end. They are in their infancy now, but when they develop on a national scale it is hard to see how the chains will be able to meet them.

While it is impossible at present for all retail dealers to join cooperative groups on account of the lack of complete organization, and hence to meet the chains on the basis of price alone, nevertheless, they are far from being doomed. Price is only one kind of service; there are many others and few that are open to the chain store to give so well as the independent. As one chain store official has said:

> The chain store may be able to undersell the independent, but it can't "overserve" him. The small profits of the chain-store business necessitate the most rigid economy in operating—economy which must be extended to the labor item. The labor item is an almost insolvable one for the chain store, for low wages and loyalty rarely go hand in hand. The chain is likely to be deficient in two great fundamentals—personality and personal service—and these are the independent retailer's salvation.

22. *What the chain may teach.*—Keen-sighted business men have come to welcome the competition of the chain store. It has been a sort of business evangelist—waking up the trade, raising the level of retail efficiency and stimulating the buying public into buying new things and more things. If the chain store has done nothing else it has served to educate the retail merchant. The dealer who is alert and studies the methods of his chain-store competitor cannot fail to become a better merchant. He will also become a formidable competitor of the chain on its own basis of service. Any dealer may adopt the methods used by chain stores to cut down expenses except, of course, those which are part of large-scale

organization. It is the merchant who refuses to change his methods of merchandising, who prefers to complain rather than to compete, that needs to fear the chain store. The individual store owner can rest secure in knowing that his business is molded by himself, that it reflects his personality and if his personality is sufficiently strong he can gain a hold upon his trade that the paid manager of one link in a great chain can never hope to secure.

23. *Chain stores and the manufacturer.*—The manufacturer is never indifferent to chain stores and, depending upon the class of manufacturing he is doing, he is either suspicious or favorable to their development. He is suspicious, and at times even hostile, if he is a manufacturer of nationally advertised goods, for the reason that many chains are price-cutters and push their own brands in competition. The fact, too, that they are close buyers and powerful, into the bargain, has not endeared them to all manufacturers.

The manufacturer of unbranded or privately-branded articles, however, sees in the chain a tremendous outlet for his stock of goods. He figures that the chains handle an enormous amount and a wide variety of manufactured products which some one must supply. While some chains manufacture part of their goods thru owned or controlled factories, it is not conceivable that these factories will supplant in more than a small measure, the need of goods from independent manufacturers at least for some years to come. The chain, therefore, offers quick, sure and

profitable markets for the products of many manufacturers and should be considered as possible channels by every manufacturer who has a line of goods suitable for chain-store trade.

REVIEW

May the chain store principle be applied to any line as it has to groceries, clothing, etc.?

What has been the general effect of chain-store development upon the manufacturer, the jobber, and the retailer?

What are the many advantages which chain stores have over the independent dealer?

What are the weaknesses of chain stores?

If you were a retail grocer and learned that the Atlantic and Pacific chain was about to open a store next door to you, what would you do?

CHAPTER VII

MAIL-ORDER SELLING

1. *Significance of mail-order development.*—By mail-order business is usually meant business received from the public by mail, whether it is obtained by means of catalogs, by periodical advertising or by some form of direct-by-mail advertising. The business obtained in this way by manufacturers and supply houses from other manufacturers and from middlemen is, strictly speaking, mail-order business, but it is small as compared with the business done by other houses with the public. Most mail-orders come from catalogs, and the large mail-order houses are also known as catalog houses. Practically all mail order houses advertise or utilize lists to distribute their catalogs, which are generally elaborate, containing full and precise descriptions of the whole line, with illustrations, some of them in color, of the leading articles, such as cloaks and suits, shoes, hats, etc. Some houses use one large catalog and supplementary departmental catalogs. Others distribute smaller seasonal catalogs four or six times a year. The largest catalogs are expensive, and some houses have charged a price for them. Nowadays, they are generally regarded as the best kind of advertising

and every effort is made by the houses to induce customers to consult them regularly and for every want.

In its beginning, mail-order advertising was directed at the rural and small town sections which were imperfectly served by the country stores. A variety of articles such as it was impossible for the country stores at that time to think of carrying were offered by catalog houses at prices which generally underbid the stock which local dealers carried and proved equally attractive on those articles they did not stock. At the same time the styles and fashions of the large centers were carried to every nook and corner of their country. People got more and better goods for the money. New wants were suggested and new ways of satisfying them were provided. All over the country, in the smaller districts and humbler homes, the mail-order catalog was the advance agent for the popular magazine which came later and helped to forward the work of education.

The dealers in these small places were at first hard hit by catalog selling and a loud outcry went up for legislature to curb it. This has now died out in most sections. Mail-order competition has forced the small dealers to wake up and improve their methods and service to their communities and in some cases it has given them more business than they ever had before. In some instances, all the dealers in a town or a section have combined to fight it. In others, dealers organize buying associations. The public has been shown that if it will pay cash for all the goods that it buys from

the dealers as it has to do when it buys from the mail-order house, and will order thru the dealer when the dealer does not stock the article or is out of it, they can get the same goods at substantially the same prices, assure a better permanent local variety of stock and help their home communities.

Of late years the mail-order houses have been getting a hold on the city and suburban sections. One reason is that the cost of living being higher in the cities than in the country, many city dwellers are ordering from the low-priced goods in the catalogs. Another reason is the decline in the service formerly given by the department stores. Furthermore, it is actually less trouble, in many cases, to go shopping thru a mail-order catalog for goods of a more or less staple character and order by mail than it is to shop in the crowded department stores of the city. A catalog will often contain more information than a clerk can or will give.

2. *Extent of mail selling.*—Some idea of the extent of mail-order selling may be gained from the fact that the total sales of Sears, Roebuck and Company for 1918 were running at about $130,000,000 and Montgomery, Ward and Company $45,000,000. These two stores taken together are estimated to cover over 40 per cent of the exclusively mail-order retailing in the United States for that year. Some distance below them are other well-known houses such as the National Cloak and Suit Company, the Standard Mail-Order Company, Charles William Stores, Bellas, Hess &

Company and the Larkin Company. Estimates vary as to the relation of this business to the total retail volume; the figure most often mentioned being 6 per cent. If we take that figure as giving the total amount of sales of the leading mail-order establishments for the year and add to it similar figures for the countless number of little local mail-order houses, direct-selling manufacturers and retail stores doing this form of business, we shall have a sum probably not far from half a billion dollars.

3. *Retailer's attitude toward mail-order selling.*— As in other forms of merchandising, the attitude taken toward mail-order selling depends largely upon the class which speaks. The retailer often sees in the mail-order house a strong and feared competitor. He finds frequently, also, that it has created new wants among consumers which he gets an opportunity to satisfy.

The attitude of most retailers has one peculiar feature. Some of their associations have adopted resolutions against the mail-order house, maintaining that it is threatening the whole economic structure of the country and breaking down the local retail market which is the basis of most American business. They assume that it is an economic wrong for a large organization to do a successful business entirely by mail, but that it is not wrong for the small dealer both to sell over the counter and also to do as much mail-order business as he pleases. It is only when he gets to treading on the toes of retail dealers outside of "his"

territory that he becomes in their eyes "dangerous."

4. *Jobber's attitude.*—Most mail-order houses buy direct from the manufacturer and thus lessen the flow of goods thru the jobbers' warehouses at least immediately. The trade of the small dealer in country communities is at first reduced and, as these dealers are the mainstay of the jobbers, a decrease in their trade means less trade for the jobbers. It is true that catalog selling stimulates business in the end and produces more of it for the dealers, but this is no gain for the jobbers if the dealers combine to get lower prices and then buy direct from the manufacturers.

5. *Manufacturer's attitude.*—Many catalog houses manufacture part of their goods and thus compete directly with manufacturers in these lines, but as they do not manufacture all they sell and prefer in every case to buy rather than manufacture, many manufacturers see in them a large and greater market for many kinds of merchandise.

The extent of this opportunity is shown by an article in *Printers' Ink,* in which the author estimates that six per cent of all commodities sold in the United States are sold by mail. The writer says in conclusion:

> It follows, therefore, that many hundreds of factories can elect to make goods primarily, if not exclusively, for mail-order distribution. They may canvass both fields. They will find that the old jobber-retailer channels are comparatively expensive to enter in a large way, and that buyers therein are perhaps slow to respond; but that such channels supply a stable outlet, once they are properly entered.

They may discover that it is much easier and less expensive to enter the field of mail-order manufacture, but they are likewise apt to learn that therein lies insecurity, anxiety and the fiercest competition with those who seek to cut costs to the bleeding point. Whatever they may decide, by whatever process of reasoning or the taking of a blind chance, the *choice* is there today; there is plenty of room in the six per cent field.

Having in mind the patent facts before us, it certainly does not seem to be the part of wisdom for any manufacturer, jobber or retailer to rest on his oars in fancied security, feeling that the rapid development of the mail-order business is not a matter of special interest to him. For it is, in fact, of vital interest to every manufacturer and distributor, big and little. And right now is the time to think about it and most diligently to study its trend.

The catalog houses, however, meet the opposition of the manufacturers when they cut prices on the latter's trademarked and nationally advertised goods.

6. *Attitude of the public.*—Public opinion toward mail-order selling runs the whole gamut of sentiment from abuse to praise. In any consideration of the subject, there are certain questions which should receive careful and unbiased attention. These are the nature of mail-order selling, why goods are sold in this way; the question of legitimacy, the points of competitive strength and points of weakness; how the local store can compete and why it fails.

7. *Kinds of mail selling.*—There seems to be a prevailing opinion that mail selling is exclusively "big business." This is not so. While many of the units are exceedingly large, there are many thousands of small houses doing business partly or wholly by mail.

This is shown by a consideration of three leading classifications.

First, there are manufacturers who sell all their product by mail to consumers or to dealers. Most of the mail-order advertisements appearing in the general magazines are those of manufacturers dealing directly with consumers.

Second, there are the so-called mail-order or catalog houses who sell entirely by mail; or partly by mail and partly over the counter; or else by means of agents or canvassers. Some of the largest catalog houses are manufacturers, but as previously said, prefer rather to buy in the competitive market. The character of the source of supply, however, is unimportant.

The third class of business houses selling by mail are the jobbers. Some of these are large houses, for example, Butler Brothers, in the novelty field, but on the whole the field is small.

8. *Why goods are sold by mail.*—Mail-order business is selling thru advertising. The prime factors in the development of advertising have been cheaper transportation, postage, magazines, newspapers and paper. Without low freight rates goods could not be widely distributed. Cheaper postage made it possible to reach more people and cut costs. Advertising helped to cheapen newspapers and magazines and then cheapness in turn cheapened the cost of advertising and reduced the cost of selling. When paper costs came down, the saving was spread over every utility service by paper. Forty years ago a big catalog

would have cost several times what it does now. When the cost of these several means and mediums came down it was inevitable that competition would sooner or later discover the practicability of advertising. This happened, and mail-order selling developed in consequence.

Viewed from another angle, the development may be said to be due to competition itself, both in general and in particular fields. Thus, for manufacturers, the cost of getting distribution thru the regular jobber-retailer channels was constantly rising. Retailers were not ordinarily cooperating as the manufacturers thought they should do and many disputes arose between the two classes. The heavy national advertising of manufacturers endeavoring to secure the distribution of goods, irrespective of the dealer's help and the heavy local advertising of department stores, educated the business mind of the country to the fact that selling was a logical process in which personality helped but was not indispensable. Advertising, therefore, was one of the means of cheapening costs and insuring progress. Goods are sold by mail, in short, because they can be sold that way.

9. *Is mail-order selling "legitimate"?*—Some twenty years ago mail-order selling was associated in people's minds with "cheapness"—cheap magazines, cheap advertisements, and cheap goods. The periodicals carrying these advertisements and the so-called "mail-order publications" were usually of low grade, filled with all sorts of questionable offers of tricks,

games, agents' outfits and other things designed to prey on the unsophisticated. This condition has virtually vanished and today, as has been pointed out, mail-order selling occupies a leading position in the field of retail merchandising. Judged by this standard, it is thoroly legitimate.

Is there any other sense in which the mail-order house is not legitimate? Is there any economic justification for the hostility of the retail storekeeper? What does a business magazine mean when it asks of retailers: "Do you think it good business for a manufacturer of advertised goods to place his line with everyone who will carry it, or shall he try to protect the 'legitimate dealer'?" Who is the legitimate dealer? Is he not any merchant who sells honest goods in an honest way? Some retail merchants claim that the specialty store dealing "over the counter" is the only "legitimate" dealer. To them, all other forms of retail competition—the department store, the chain store and, most of all, the mail-order house—are to be classed as irregular and dubious, mushroom growths that have gained temporary favor by the illegitimate means of quantity buying, manipulation of prices, departments and exaggerated and untruthful advertising and must disappear when these forms of unfair competition, as they term them, are discovered in their true light and done away with by law and legislation.

The question is as to whether these forms of competition are unfair and whether a service performed by

mail is any the less economical than when performed by the local retail store. If so, no attempt to frustrate its development will long succeed.

10. *Justification of selling by mail.*—Does mail-order selling really serve the people? One answer is that the mail-order houses continue to make large sales and hold a surprisingly large proportion of their customers. An officer of the Charles William Stores, says:

> There must be some good reason why ninety-three and one-half per cent of the people who have bought goods from us in a given state have ordered on an average three and one-half times in the course of the year; there must be some good, sound reasons for the overmastering success of the mail-order business. There must be something fundamentally sound about a proposition that sells itself and keeps itself sold.

Oftentimes mail-order selling performs a service not performed by other retail selling methods. Frequently it gives better service than retail stores in the very departments in which retail stores should excel. In this connection let us take the single item of sales service. How many salesmen are as well informed about the goods they sell as the silent informant in the mail-order catalog? Hear the confession of a small town dealer, who wrote as follows to a farm implement manufacturer:

> I know now why I have been losing business to the catalog houses. I thought I knew my lines, but I don't. A farmer out in the country had been getting consignments pretty regularly at the freight station from one of the Chicago

houses and I wanted his business. This spring he was in the market for a sulky plow. I determined to get his order, and went out personally to his place and invited him, as a personal favor, to look over my stock. He came in, and I showed him your line. One plow interested him, and he began to ask questions about it. I told him all I could, and all that I had ever told anybody. But he wasn't satisfied. Before I knew it, he was telling me more about that plow than I knew myself. It was an interesting half-hour for me. I asked him where he had learned the implement business. He said he had never learned it; he had gotten everything he knew about the true inwardness of a sulky plow from the pages of Blank's mail-order catalog. That taught me a lesson. No, I didn't make the sale, but I'll never lose another for the same reason that I lost that one. If Blank can afford to take the time to tell his customers all they want to know about the things they purchase, I guess I can afford to learn my line well enough to tell my customers the same things. Send me all the information you have.

In addition, consider that mail-order houses guarantee satisfaction—will return money if the customer is not satisfied. The retailer many times cannot do that.

11. *Creating business by mail-order.*—It is sometimes argued that the mail-order house is only a new competitor for old business, that it creates no new business nor provides any new service. Were this true, it would be no argument against mail-order selling, compared with other forms of competitive marketing. Competition is open to all and everyone who uses honest methods is at liberty to get as much of the business as he can induce the public to give him.

But is it true that the mail-order house is not con-

structive? Decidedly not. Thousands of things which increase the pleasure of living in country homes are bought by mail which would not be bought otherwise. The spreading of information thru the mail-order catalog about new kinds of merchandise has, as has already been said, raised the standards of living, put new comforts into countless homes, and created and satisfied many wants.

Some people concede that mail-order selling is constructive, but they claim that it leads to extravagant habits. That leads us over into the realm of the competitive system in industry, which is a subject apart from this discussion. It can be said, however, if competition is an evil in industry, it is a fault of the entire system. When local dealers criticize mail-order selling on this basis they are criticizing it for doing with conspicuous success the very thing that most of them are doing, to wit, selling as many goods to as many people as possible and making a reasonable profit from their sales.

12. *Competitive strength of mail-order selling.*—Selling by mail has many elements of competitive strength. By familiarizing himself with them the manufacturer or dealer who decides to sell in this way will avoid pitfalls. The local dealer who competes with the mail-order house should consider all the advantages which mail-order selling possesses in order to learn how to combat them.

13. *Wide variety of selection.*—Probably the chief point of strength of the catalog house is found in the

wide variety of stock which it offers. The country storekeeper has such limited capital that even with the best of management he must spread the capital out very thin in order to meet the demands of the trade. For example, he may carry a few styles and sizes of enamel kitchen-ware, but he must also carry dry goods, drugs, groceries and a host of other things, so that he has not funds available to carry sufficient enamel ware to meet the demands of his trade which are constantly being augmented by national advertising and higher standards of living. What is true of the country general store is true to a lesser degree of the small-town specialty store.

It is quite possible for the local merchant to supplement his stock by mail orders, at the customer's request, but he can not do this on a footing of equality with the mail-order house. A customer expects a retail store to carry an adequate stock and if it does not have what he wants he oftentimes is unwilling to wait until the dealer orders it, but mails the order himself.

14. *Low capital and overhead.*—The mail-order house does not need to carry large stocks; in fact many of the bulkier articles listed in mail-order catalogs are not carried in stock at all. Orders for them are forwarded to the manufacturer and shipment is made direct from the factory to the consumer. This is an advantage which the small store lacks because it must tie up its capital in relatively large quantities of merchandise. When customers order by mail, they ex-

pect some delay. This gives the house an opportunity to obtain outside the articles ordered which it does not have in stock.

15. *National in scope.*—The wide area of operations of the mail-order house frees it from the influence of purely local conditions of business depression. Only widespread industrial or financial difficulties can seriously affect it. A prolonged strike of miners in the anthracite region of Pennsylvania would affect seriously every retail store in the Scranton district, but a mail-order house with headquarters in that city operating thruout the East would be affected in much smaller measure.

The area for development of the catalogue house is almost unlimited. Operations are limited, in the United States at least, only by the extent and efficiency of the postal, telegraph, freight and express systems.

16. *Selling power of the catalog.*—The catalog of the mail-order dealer presents his entire line. The catalog, too, is always accessible in the home of the customer and it is a much simpler matter to turn its pages in order to gain a knowledge of any line of goods than it is to visit a store for a personal inspection. The mail-order customer, therefore, is likely to order a larger assortment of merchandise than the over-the-counter customer. Moreover, the customer is in the buying mood when he leafs over the catalog. The alluring picture which accompanies the description of most articles is therefore often more effective than

the sight of an article in a store where he or she has gone in to get one article only and is thinking of something else. The ease of ordering from a catalog in the quiet of the home helps to obtain the trade of those people who are either unwilling or unable to take the time and trouble of going shopping.

17. *Low prices.*—A common opinion is that the chief strength of the mail-order house in competition is its ability to quote low prices. Some mail-order houses offer many articles at very attractive figures, but others make no attempt to get trade on a low price basis. It is worth while analyzing the advantages the catalog houses possess in order to see how far they are peculiar to this kind of retail selling. For example, are low prices always possible in selling by mail or are they due to good management, size or some other consideration which the catalog house shares in common with other retailing agencies?

18. *Elements in selling price.*—There are three elements in selling-price cost, sales expense and profit. We shall consider these elements in inverse order. Good mail-order houses operate on a basis of low profits and quick turnover. This, however, is a universal principle if not quite the common practice in successful retail selling.

The mail-order house, obviously, has certain savings. Its business is on a cash basis, reducing bookkeeping costs and eliminating costs of collection and losses from bad debts. It has no house-to-house delivery problem, which in some retail stores runs as

high as three per cent of total sales. There is no expense for window display, nor is an expensive location required. As the employes do not come in contact with the public, it is possible to use cheaper labor than the retail stores can employ. Larger unit sales are made than in retail stores which means a minimum of certain overhead charges on each dollar of sales.

As against these savings the mail-order house has a tremendous expense for advertising. Expense of operation for an ordinary country store runs from twelve to sixteen per cent of sales. For the large type or mail-order house it is probably from 20 to 22 per cent of sales. In the smaller houses, including many direct selling manufacturers, it is quite certain that the dealers and manufacturers are glad to buy a dollar's worth of business for 25 cents or even more.

It is evident, therefore, that the catalog house has no advantage in selling expense over that of its competitors. Even if the catalog house, with a lower expense of operation, quotes lower prices than the retail store, the latter always includes in its price the cost of delivery; the customer of the catalog house, in other words, pays for his own delivery. For comparative purposes, therefore, this expense should be added to the other expenses of the catalogue house.

If mail-order selling makes possible lower prices, it must be because of the third element, cost. In the case of the manufacturer who sells direct, it is naturally assumed that the goods laid down in his warehouse have cost him less than they would cost the dealer who

had to buy them from him. This would be true provided the cost of his goods to his sales department was the same as the cost of manufacture. Many manufacturers, however, credit themselves with a profit both on manufacturing and on selling; they charge the sales department with an amount that represents both the actual cost of manufacture and the profit demanded from the manufacturing department; and the sales department is then expected to make still another net profit for the manufacturer. Because of this marked difference in arriving at costs, the direct selling manufacturer does not always start with a lower cost of goods than the mail-order house that has to buy what it sells, altho probably in the majority of cases he can do so.

19. *Influence of quantity upon price.*—The ability to buy in quantities is the most important consideration making for low cost of goods to the dealer. The mail-order house must pay the same price for its goods as the local retail store *if they both buy in the same quantities.* Many manufacturers, however, are willing to go over the jobber's head and to make their lowest prices to any one who can buy in sufficient quantities. If on account of lower cost of goods, a large mail-order house makes better prices than a small retail store, it is because one is a large buyer and the other is a small one.

20. *Trade favors.*—If the usual quantity discounts were the only price advantage of large establishments, which were secured as a result of buying in maximum

quantities, the small dealer would not be seriously handicapped, because in many lines the scaling down of prices for buying in large quantities is slight. But some manufacturers in order to obtain business from a large mail-order house will sell at a price which reduces their profits almost to the vanishing point; indeed, manufacturers without adequate cost systems and blinded by the seeming advantages of a mail-order connection, have been known to sell their entire output to a mail-order house at a loss. This of course gives the large mail-order dealer a decided advantage over the small local dealer who cannot secure such prices.

To what extent large selling units, including mail-order houses, are favored with secret discounts by the manufacturer will of course never be known. Since the creation of the Federal Trade Commission, however, this practice along with other forms of trade discrimination has been put under the ban and penalties prescribed for those who grant them.

21. *"Loss leaders."*—Prices are cut by mail-order houses on many nationally advertised articles on which quantity prices are not granted to any extent. This practice, however, is common to all forms of retail trade. If country dealers do not adopt this policy it is because they do not care to become embroiled in a controversy with the manufacturer over price maintenance. Then, too, their business is not large enough to permit them to cut prices on some articles in the hope of making up the loss on others. Some mer-

chants, also, are of the opinion that price cutting is not good merchandising.

22. *Advantages of mail-order houses not inherent.* —We have seen in the preceding sections that the strength of the catalog house is due largely to its size and has no necessary connection with selling by mail. Efficient management, low profits with quick turnover, low prices resulting from quantity purchases, guaranteed goods, the exchange privilege, up-to-date advertising—these are a few of the advantages of the mail-order house. Many retail stores secure these same economies and numbers of others could secure most of them if their stores were managed as efficiently as mail-order houses.

23. *Retailer and mail-order competition.*—Like every other form of retail selling, the mail-order business suffers from certain disadvantages. For most people, buying by mail is tedious, formal and cumbersome. The average buyer would rather deal with a live person in his own town, some friend or neighbor maybe, than with an impersonal and remote corporation, provided that the local dealer can furnish the service. The mail-order house ordinarily gets business only when the local store fails to furnish the service, or when customers are unaware that it can furnish it.

The mail-order firm is not driving the local dealer out of existence. Both have their respective places and both will doubtless continue to prosper. But if the local dealer is to get his share of the business, he

must give his best thought and energy to the task of competing with his rival on its own basis of service. It will be futile for him to try to hinder the mail-order business by legislative enactment. If the mail-order house is guilty of unfair practices in competition, it should be punished just as any other retailing agency should be punished that commits a similar offense. But as long as both play the game honestly, neither can strike at the business of the other thru an appeal to the legislature without striking at the competitive system of industry to which they both owe their existence.

24. *Purchaser picks out his own goods.*—In its own field the local retail store has certain points of strength, just as the chain store has. The purchaser has a decided advantage in seeing what he is buying. If he is dissatisfied with his purchase, he can often tho not always make quick and easy adjustment without being put to the trouble of reshipping the goods, writing letters and waiting several days for settlement.

25. *Quick delivery.*—One of the most decided advantages which the local dealer has is quick delivery. The store and the consumer's residence are comparatively close together. Then, too, the mail-order buyer, if he wants to lighten transportation charges, must buy in large quantities. On the other hand, the customer of the small store can buy the smallest amounts as he needs them, and as the overwhelming number of consumers have no capital to expend in anticipating future needs they must patronize local dealers.

26. *Merchants' good-will.*—In a small town, particularly, the merchant is on friendly terms with his customers. He builds up a valuable clientele. The establishment dealing at long range can do the same, but it is an impersonal good-will and can never equal in intensity that of the local merchant.

27. *Personal service.*—As the patronage of a retail store is usually local and limited in extent the owner grows to know the needs of his customers. He can adapt his stock to these needs, avoid slow sellers, and hold trade by catering to individual and neighborhood peculiarities. This is illustrated by the case of a men's furnishings store in a western town. The proprietor of this store keeps a card record of his regular customers. When a customer comes in to buy a hat the salesman knows the sort the customer is accustomed to buying and immediately offers it to him. When the proprietor wants to dispose of an odd lot of shirts, he sends personal notices to his customers who wear the sizes included in the lot. No mere price inducements offered by competitors of this store could alienate these customers.

28. *Appealing to community pride.*—The local retail store is an important element in the business life of the community. Its owner usually lives in the town. So do its employes and they form an effective body of personal advertisers. In many towns, the stores make the towns. The local merchant can appeal to civic pride in urging support of home institutions as against out-of-town competition. This spirit

of civic consciousness in American communities has become a force to be reckoned with and the retail merchant can often enlist this spirit for his own direct advantage.

29. *Competing in price and service.*—Local retail stores sometimes compete with catalog houses on the basis of price. Many dealers advertise to meet any mail-order figures that are offered. When they are given an opportunity to figure on an entire bill of goods they are often able to convince the customer that local prices are at least as low as catalog prices. Even when some business is accepted on this basis at a reduced profit or even a loss, it is good advertising and often results in securing the future trade of the customer.

Competition in service, however, is usually more common and more successful for the retail store than competition in price. Stores which provide at all times a well-selected stock, employ salesmen who are alert and anxious to serve, present a spick-and-span appearance and attractive window displays and do effective advertising, meet the catalog houses on their own ground and secure their proportional share of the business.

30. *Competing by mail.*—It has been frequently suggested that the local dealer may compete with the catalog house by entering the mail-order business, even in small towns. The individual stores of the Penney clothing chain do this successfully, more successfully, by the way, than many large department

stores in the cities, which have often established mail-order systems and then later discontinued them.

The retail store that wants mail-order trade need not go after it by the "catalog route." It will ordinarily do better to subordinate its mail-order activities to its counter service. It should welcome mail and telephone orders, provide prompt service for those unable to come to the store, issue frequent small bulletins of "specials" and in every way possible try to extend its influence among the people who need the same kind of goods as its over-the-counter customers.

31. *One reason for failure to compete.*—Perhaps the chief cause of failure of many retail stores to compete with mail-order houses is inability or unwillingness to advertise effectively. This will readily be seen by comparing the newspaper advertisements of the usual small town retail store with the description appearing in the mail-order catalog. "Most of the mail-order descriptions are flowery stuff," said a dealer, "that would look silly if used by a local house." A dealer with such ideas lets sentiment interfere with business. Catalog descriptions are far from being "flowery stuff," but even if they were they are what people want and they sell the goods. The local dealer who puts his own preferences, literary or otherwise, ahead of those he is supposed to serve will lose trade to those who have only one law, the will of the customer. The secret of the mail-order houses' success is, when all is said, the old secret of pleasing the public.

REVIEW

What is the success of mail-order selling based upon?

Does the mail-order house have any advantage in selling over the local retailer which the latter cannot meet and overcome?

If you were a retailer who felt the competition of the mail-order house, what would you do?

Why did the mail-order pioneers seek the rural districts as their best field? What is the tendency today?

How is it possible for a catalog to be a better salesman than the man behind the counter?

CHAPTER VIII

TRAINING THE SALES FORCE

1. *"The salesman is the store."*—When it is realized that there are approximately fifty thousand salespeople in the department stores of New York City alone, the great possibilities that lie in training this class of workers for more effective sales work become apparent. If we add to this figure the number of sales people employed in all other retail organizations in the United States, from the general store at the country cross-roads to the chain organizations with their thousands of stores, we get an idea as to the immense number of people who are engaged in retail selling. It is thru this multitude that some $20,000,000,000 of goods are distributed to us. The success of the stores, the price of the goods, the amount of service, are reflex in the last analysis of the intelligence, the industry, the loyalty of these people. It is somewhat surprising, then, to reflect upon how few retailers have made any systematic attempt to increase their sales efficiency.

There have been noted exceptions within the past decade or two of retail merchants who have done this, and in every case the results obtained have been striking. One of the best-known examples is the United

Cigar Stores Company. In little more than a decade and a half this business has been extended so as to include every large city in the United States. For this success, their system of training salesmen, as much as anything else, has been responsible. That the same methods are fundamental to all forms of retail selling is shown by the fact that the United Cigar Store system of training retail salesmen and similar systems of large department stores are being used to equal advantage by small stores.

2. *Explaining the store policy.*—In most of these organizations, the training of an employe begins immediately after the details of employment have been arranged. At that time, the educational record card is made out. This card contains such information as the name and address of employe, his education, previous store experience, the names of the positions he had held and the reasons for leaving. Space is left on which to enter his future record in the educational course.

At the outset of the educational work, it is the practice for the educational director to collect a number of the new salespeople during a dull period or after the close of business and have the general manager give them a talk on the history and policy of the store. This is the first step and one of the most essential in the training of a sales force. The successful salesman must be a firm believer in the store of which he is a part and in the merchandise he offers for sale as well as in that indefinable something called the policy

of the company. The value of such faith is shown by the statement that the failure of one large department store not many years ago was caused by the sales force's loss of faith in the store.

3. *Teaching the store system.*—Having become thoroly imbued with the spirit of the store, and having been impressed with the importance of courtesy in the service of customers, the new sales clerk is ready to learn the routine of the system. The superintendent of the store now becomes the instructor of the class. He explains the mechanical operations which are to be part of the salesperson's duties—how to make out the sales slip or "schedule," "hold tickets," "work tickets," "transfers," "special delivery slips" and other forms used in retail selling. Then to make sure that he has been understood, the superintendent usually quizzes the class at random. Care is exercised not to cover too much ground at one meeting, which might confuse the salespeople with a mass of forms. Instruction, if possible, should be spread over several meetings. In this work, a stereopticon has been found to be very useful in instructing large groups.

Other talks are given on the care of stock, the technical nature of the goods and various other details covering the salesperson's duties. In the case of special employes engaged for a single sale the entire course must be condensed into one meeting. A store manual is given to each salesperson as part of the permanent equipment.

In many stores where lower prices prevail in the

basement, simpler systems of training introduce the clerks to this part of the store. The work is condensed into one or two meetings, at one of which the basement policy is explained. Tests are given as in other classes and the salesperson is provided with a special basement manual.

4. *Beginning actual selling.*—After the first lesson in salesmanship which follows the discussion of store system and policy, the recruit can begin selling. The instruction will probably continue at regular intervals for several months. He is assigned to work under the direction of an experienced salesperson. At this time a complete record for the first year's work will be started. On a printed form a record of errors of the new employe will be kept at a later time. The reasons for each error are taken up by the superintendent with the salesman. In order to keep errors at a minimum some stores give premiums. The Stix, Baer and Fuller Company of St. Louis, for example, grants a half-holiday bi-monthly to each employe who keeps his errors at or below a certain number.

The work of the new employe in many cases is watched by "shoppers" from the educational department. They observe the salespeople at their work in order later to offer suggestions for improvement in selling and to compliment them also on the good work which is being done. At Strawbridge and Clothier's, in Philadelphia, an attempt is made to train the employe in the use of correct English as well as in house policy, system and salesmanship. Training in pen-

manship is frequently necessary. For regular employes the course of instruction lasts ten weeks with two meetings a week; for basement employes and those engaged in special sales, the educational work is brief in character.

5. *Special and general bulletins.*—In some stores special bulletins or "efficiency" bulletins as one store calls them, are issued. These are planned for the whole store force. In nature they are sometimes of an educational character and sometimes inspirational in tone.

They are sent to the floor superintendents or aisle managers in each section and by them distributed to their employes. Each salesperson reads them and signs, as evidence of having read them. The bulletins are later discussed under the floor men's leadership. The purpose is to go into greater detail in the topics under discussion and incidentally to make the idea of "we are partners" more than so much verbiage. After the meeting the floor man sends in a report to the educational office noting the fact that the meeting has been held and the results obtained from it.

6. *Studying merchandise.*—The study of the merchandise is part of the buyer's duties. But in order that the merchandise should be profitably sold it is necessary that the salesperson selling it have some technical knowledge of the goods. For this reason the buyer of a department holds regular conferences with his sales force and seeks to post them on materials and methods of manufacture.

A thoro knowledge of merchandise is now considered of equal importance with that of system, courtesy, store policies and other essentials to successful selling.

7. *Libraries and rest rooms.*—The most progressive of our department stores besides training their employes in technical and general educational subjects make provision for their health and recreation. Among the many stores which have added these features to their establishments are Marshall Field and Company. This company gives over to their employes a large part of one floor. Two reading rooms, music and rest rooms and various other welfare features are made part of the work of this company in training its employes.

8. *Junior courses.*—In addition to training the selling force of today, provision must be made for training the messengers, cash girls, stock boys and other employes who will be the salespeople of tomorrow. Every large store has numbers of these young people between the ages of fourteen and eighteen. In most cases they have left school as early as the law allows, after having completed the work of the grammar grades and in a large percentage of cases only the work of the sixth or seventh grade.

For these workers some kind of continuation work must be provided. That of the John Wanamaker Commercial Institute may be considered as typical. Regular classroom instruction under competent teachers is given about four hours a week during store time. The subjects chosen are those which aim to

continue the previous education of the worker from the point where it was discontinued and to supplement it, thru the inclusion of a study of materials and methods of merchandising, along the lines which will prove most advantageous to the young employes. Health and strength are also developed by military and gymnastic drills, boy scout exercises and so on.

9. *Cooperating with public schools.*—In some cities a concerted movement has been started to get the public schools to give elementary training for those in mercantile life. In Winnipeg, a group of club women investigated housing and other conditions surrounding young girl workers in department stores of that city and as a result offered two suggestions. One was directed toward better living conditions by recommending the opening of semi-philanthropic boarding houses for working girls living away from home; and the other, the more important, urged the board of education to revise the courses of study in the public schools and to add continuation courses in order that girls entering store work might have a better chance to command a living wage. Continuation schools are now compulsory in many states and any worker who leaves school at an early age must by law continue his education a stipulated number of hours a week for a certain period.

10. *Training non-selling employes.*—The educational work of a department store does not stop with the sales force but continues upward thru the ranks of buyers, floor superintendents and aisle managers.

In a well-organized store, men in these occupations must complete a system of training similar in many ways to that required of a new salesman. In many stores the educational director plans special courses for these employes and for any other group in which there is any considerable number.

11. *Results of educational work.*—That the educational movement has proved successful is shown by the demand of salespeople of many years' experience to enter such courses as well as by the tangible results of the courses themselves. This is the testimony of one middle-west store, that of Rike-Kumler Company of Dayton, whose educational director says:

> One great step which has been obtained is the awakened attitude of employes toward education. At first the older employes asked to be excused, but now they are beginning to realize the value of the school work.

REVIEW

What principles are used in training the selling force? Name one firm which was a leader in the movement.

What is the first lesson given to department store new employes? How is the spirit of the store as well as its system taught?

Who should educate the salesman in materials, manufacturing, etc.?

What subjects, besides selling topics, are taught in the commercial courses in department stores? What is some of the welfare work? Do the employes approve of the educational and welfare work?

Discuss a typical course for junior employes.

How may department-store methods be adapted to other retail selling organizations? Of what value is a store manual?

CHAPTER IX

BUYING

1. *Necessity of good buying.*—Of all the elements which enter into retail merchandising there is none of greater importance than buying. With the ability to buy well almost any store is sure of a moderate degree of success, at least; without it no store can hope to succeed. If the retailer is to serve his trade well, if he is to keep his stock moving, if he is to meet competition, if he is to keep down expenses, he must be a good buyer. Profits begin with successful buying. No matter how tastefully goods are displayed, how well they are advertised or how carefully the sales force is built up, no merchant can overcome the handicap of poor buying.

2. *Buying organization.*—In small stores and even in some which do a yearly business in excess of a hundred thousand dollars the proprietor is the buyer. As the store grows larger, the older clerks are allowed to buy less important lines, and buyers are engaged to purchase the more important ones. In the large department stores of some cities there may be a hundred or more buyers in one store, many of whom have one or more assistants. In the very largest stores the proprietor finds it impossible even to supervise all

the buying, and an officer known as a merchandise manager is put in charge of all buying activities.

Whether the buying is for a country cross roads store or for a city department store, it must be done according to certain well established principles if it is to be well done.

3. *Guides to buying.*—With the selling field analyzed, competition estimated and a marketing policy determined, the retail merchant then plans his stock. As the season progresses, an examination of it is made to see how it is selling. Salespeople are required to hand in "want slips" showing requests for goods not carried. "Shoppers" make the rounds of other stores, selling similar lines to keep in touch with competition and to gain new ideas. Stock which has proved to be a slow seller is noted as an error of buying judgment, and provision is made to dispose of it quickly. Complaints are checked up by the buying organization to prevent their repetition, if the fault was due to poor buying. The reasons given by customers to salespeople, explaining why certain goods inspected are not purchased, are turned in daily. Finally, buyers spend a large part of their time during the day among the customers of the store.

When on buying trips it is as much a part of the work of buyers of high-class women's wear to visit theatres, hotels and restaurants to see what well-dressed women are wearing as it is for them to visit manufacturers. Any expense incurred in this way is considered well spent, for the buyer must be con-

stantly changing his lines in order to keep abreast of the times.

4. *Lines to be carried.*—In a general store which endeavors to meet the needs of the community it is necessary to have on hand all the goods that are wanted so far as the limited amount invested in stock will permit. The problem for the proprietor of a general store is to apportion the investment in stock so as to meet the largest number of wants and yet at the same time supply the sort of wants that are profitable.

There are a number of points to be considered in determining the variety of lines to be offered and the assortment of items to be selected for each line. Local demand is perhaps the chief guide in determining the selection. Net profit to be derived from supplying such lines is another important consideration. Goods not in demand should not be stocked unless the retail merchant believes that he can arouse a latent demand for them. In selecting stocks there is also the question of future business to be considered as well as the prospect for additional trade in other lines.

Minor considerations would include such points as to whether a new line would fit in with others carried. Ludicrous combinations of lines are often found. For example, a store in Baltimore displays a sign reading, "Pianos, organs and iron safes." On the other hand, the dealer in sporting goods can well add a sporting-clothes department; the clothier can take on a line of jewelry for his haberdashery section. In the same manner shoe-repairing departments are often

added to the shoe departments of a department store for the convenience of patrons. There are other considerations also; oriental rugs or novelties are sometimes handled for their advertising value, even tho the community demand would not warrant such additions. Frequently such goods can be obtained on consignment.

5. *Estimating possible business.*—The first step for a retail dealer to take preparatory to buying is to estimate the total amount of business done in the center in which he trades. From this figure it is possible for him to estimate the part of this trade he should have and also the sales he should make in each line. This can be further classified in price levels figured on the basis of average incomes of the different classes in that buying center.

Let us consider a hypothetical case of a merchant in a small town who handles only women's ready-to-wear garments. He first figures his total sales for each line. When he begins buying for his spring trade, he has an estimate of the number of garments in any one line that he expects to sell at each price range. He knows how many times he can turn his stock each year and can therefore figure his average stock requirements. In women's waists he estimates that he does a business of $5000 a year, turning his stock over five times during that time. This means that he will need an average stock with a retail price of $1000. During the spring season his stock will range in value from about $500 on February 1 to

$2000 at Easter, and then gradually fall off to a minimum of about $500 at the end of July.

To determine the price and range of styles for each line is a difficult matter. Staples must be carried in a full range of size, color and price at all seasons while novelties must be obtained at intervals according to the expected demand. The stock of novelties must be turned more frequently than staples.

Competition frequently influences the investment to be made in certain lines. If a general merchant having the exclusive agency of a well-known clothing line is thereby able to secure most of the trade in town it would be the best policy for another retail dealer to carry small stocks of clothing unless he can secure a line equally good.

While past records of sales, price ranges, sizes and styles are of utmost importance in estimating possible business, the retail dealer should not pin all his faith on them. He should bear in mind at all times the community needs rather than past records.

For a merchant just entering the retail trade it is best to obtain a complete variety of lines rather than a large quantity of any one line. This plan may be more expensive because of the small quantities purchased, but few sales are lost by it and it gives the dealer an opportunity of finding the complete range of demand. The variety should be kept at the point which assures customers that they will find what they want in stock. In no other way can good-will be built up for a new store.

6. *Buying according to budget.*—The merchandise plan, or buying according to a budget, is fundamental to all types of retailing. One plan is shown on the following page. Such a plan is flexible in its nature and, as experience has shown, can be used as successfully by the small country store as the city department store. In some country stores which are stocked according to a budget the work has been so well done that the results obtained are within a fraction of one per cent of those estimated.

Every large store is merchandised according to some plan, tho there are various modifications. For instance, one department store doing about ten million dollars' worth of business a year is merchandised on anticipated costs of running each department, rather than on anticipated sales. In large stores where there are many departments it is necessary to carry out the plan in greater detail in order to show such items as cash discounts for each department, departmental expenses, mark-down, losses and the like. In single-line stores and general stores which are not departmentized, the plan is much simpler as the figures are for the business as a whole rather than by departments.

7. *Figuring the turnover.*—The term "turnover" is of comparatively recent origin and there is still some confusion as to its exact meaning. Some merchants figure what they call "merchandise capital" turnover. This represents, as the name indicates, the number of times the capital used in purchasing goods is turned over. It is computed by dividing the average stock

MERCHANDISING PLAN

For First Season of New Store Opening February.

	Initial Stock at Cost	Average Stock at Cost	Turnover per Season	Total Estimated Sales for Season at Cost	Mark-Up on Cost	Average Stock at Retail	Mark-Up on Retail	Total Estimated Sales for Season at Retail
Colored Dress Goods	$ 6,000	$ 5,000	1½	$ 7,500.00	33⅓	$ 6,666.66	25	$ 10,000.00
Silks and Velvets	7,500	5,000	2	10,000.00	33⅓	6,666.66	25	13,333.33
Black Goods	3,000	2,000	2	4,000.00	33⅓	2,666.66	25	5,333.33
Linens	4,000	3,500	2½	8,750.00	25	4,350.00	20	10,937.50
Cotton Dress Goods	5,000	4,000	2¼	9,000.00	25	5,000.00	20	11,250.00
White Goods	1,500	2,000	2	4,000.00	33⅓	2,666.66	25	5,333.33
Domestics	6,500	4,500	2	9,000.00	25	5,625.00	20	11,250.00
Laces and Embroideries	6,500	3,500	2	7,000.00	25	4,350.00	20	8,750.00
Handkerchiefs	1,000	750	3	2,250.00	40	1,050.00	28⅝100	3,150.00
Notions	2,000	1,500	3½	5,250.00	25	1,875.00	20	6,562.50
Ribbons	2,000	2,500	3	7,500.00	33⅓	3,333.33	25	10,000.00
Patterns	1,200	1,000	1	1,000.00	50	1,500.00	33⅓	1,500.00
Underwear	9,000	8,000	1½	12,000.00	33⅓	10,666.66	25	16,000.00
Women's Ready-to-Wear	18,000	15,000	3½	52,500.00	25	18,750.00	20	65,625.00
Gloves	750	500	2	1,000.00	33⅓	666.66	25	1,333.33
Corsets	1,000	750	2½	1,875.00	25	937.50	20	2,343.75
Hosiery	2,500	2,000	2½	5,000.00	33⅓	2,666.66	25	6,666.66
Perfumery and Fancy Goods	600	500	2	1,000.00	40	700.00	28⅝100	1,400.00
Men's Furnishings	5,500	4,500	2	9,000.00	33⅓	6,000.00	25	12,000.00
Carpets, Rugs and Upholstery	12,000	7,500	1½	11,250.00	33⅓	10,000.00	25	15,000.00
Leather Goods	1,500	1,000	2½	2,500.00	33⅓	1,333.33	25	3,333.33
Total	$97,050	$75,000		$171,375.00		$97,470.78		$221,102.06

Estimated total sales per season at retail minus total sales per season at cost equals the gross profit. For instance, $221,102.06 — $171,375.00 = $49,727.06 gross profit.

Then the gross profit divided by the total sales per season at retail equals the average mark-up per season on retail. As, $49,727.06 ÷ $221,102.06 = 22.49 per cent average mark-up per season on retail.

The gross profit divided by the total sales per season at cost will give the average mark-up per season on cost. $49,727.06 ÷ $171,375.00 = 29.01 per cent average mark-up per season on cost.

Finally, the total estimated sales per season at retail divided by the average stock at retail equals the average turnover at retail for the season. Then if this be multiplied by two the annual average turnover can be obtained. $221,102.06 ÷ $97,470.78 = 2.26 average turnover per season. Then 2 × 2.26 = 4.52 average annual turnover based on estimated annual sales at retail.

maintained during the season at cost into the gross sales at retail. This method has been applied by some merchants to a stock turnover with the result that they are operating their business on a false basis.

To arrive at an equal basis of comparison all figures should be converted to a retail basis and all calculations based on both stock and sales at retail. From these figures we get the true turnover, which in contradistinction to the so-called merchandise capital turnover, is called the stock turnover. It is obtained by dividing the average stock maintained during the season or year at retail prices, into the total sales during that period at retail prices.

Many large stores figure it by dividing the average stock at cost into the total sales at cost, the cost in both cases including both buying price and overhead. This method is not quite as good as the one using the retail prices as a basis because the retail figures show more accurately the true value of the merchandise. The total volume of sales at retail is a definite and known figure, while the actual cost of merchandise sold is difficult to obtain except thru the maintenance of elaborate cost systems. The average stock at retail is likewise easy to figure accurately because in all up-to-date stores, merchandise is given a retail price as soon as it is received. The actual cost of each lot is only obtained afterward by taking off the mark-up and likewise the loss thru reductions.

8. *Proper use of turnover.*—"One of the most insidious leaks from the 'profit chest' of a retail store,"

said a successful retailer, "is very often caused by idleness of stock, its failing to turn as often as it should in a given period. And this is due in a good many cases to the fact that the merchant has no standard turnover in each line to go by." Many merchants try to build up volume of sales by having such complete lines that they turn their stocks only twice a year. If they studied the needs of the community, ordered frequently and in small quantities, their stock could be kept active and fresh at all times.

The retailer oftentimes carries too many competing lines under the mistaken notion that he is obliged to carry them in order to hold his own against competitors. For example, a toilet goods department of one store carried twenty-eight lines of talcum powder while only fifteen of them were selling in sufficient quantity to warrant their being stocked. Every one who is acquainted with the typical country store knows that the slow-selling and dead stock is a heavy drag on the business. The stock which does not move eats up the profit in other lines. The longer it lies on the shelves the more it depreciates in value, the more interest and rent charges pile up against it and the more it deprives the merchant of profits he might be making on fresher goods.

Many retailers have made a fetish of the turnover. It is one evidence of successful merchandising, but there are others equally important. Against the desire of a big turnover must be set the necessity of maintaining sufficient stock to take care of the needs of

customers. They attempt to make too many turnovers of stock to take care of the needs of customers. The attempt to make too many turnovers of stock is dangerous. The costly sale is the one lost from being "out of stock." No "want slip" ever devised has recorded the number of sales lost daily on this account, nor what they cost in loss of trade.

9. *Determining gross profit.*—The proprietor and the buyer for each line must plan the amount of gross profit desired. The figure is arrived at in any one of several ways. If the expense of doing business in a department is 25 per cent on each sale, it is evident that the gross profit on sales must be 30 per cent.

However, there will occasionally be a necessity for marking down some goods in connection with sales. Some goods, too, will be damaged and others stolen. Again, it will be necessary to mark a certain line below the standard mark-up as "leaders" or to meet competitor's sales prices. Hence, the average mark-up must be somewhat higher than the actual gross profit desired. Where style is an element, reductions are more frequent than in lines of staples. It will be readily seen, therefore, that it is impossible to set one standard for all lines.

In the merchandise plan as presented on page 293 it will be noticed that in women's ready-to-wear garments the plan calls for a gross profit of 20 per cent. In order to average this on all goods sold, as in reduction sales where goods are frequently sold below actual cost, it will be necessary to aim at more than 20 per

cent profit. It will be noted that, with the exception of the notion department, the number of turnovers is greater in this department than in any other. Here an average gross profit of 20 per cent is sufficient, whereas an average gross profit of as high as 33 per cent is required in a slow-selling line like patterns. In the final analysis, therefore, the customer pays on the average about the same per cent above cost of merchandise in all lines. What is lost to the merchant in making reductions is more than recovered thru frequency in turning the stock.

10. *Price confirms quality.*—Merchandise of high quality will always bring its price in spite of the efforts of so-called shrewd buyers to beat the price down. Manufacturers work on a narrow margin of profit and it is certain that a buyer who haggles and forces down prices below a reasonable limit is sure to get inferior merchandise. Many merchants realize this. One merchandise manager of a large department store remarked at a dry-goods convention, "When my buyer of women's ready-to-wear coats finds an attractive one at, say, $18 wholesale, he does not try to beat the price down to $16.50. Instead, he would frequently offer the manufacturer a dollar more to put in a better lining or a more attractive collar."

11. *Attitude toward discounts.*—There are as a rule two sources of profits in retailing—the primary profit from buying and selling, which is called the merchandise profit, and the secondary profit from cash discounts. Discounts will average in all merchandise

lines about two per cent for payment within 10 days with net at 30 days. Assuming that the account is paid at the beginning of the ten-day period, this would give a discount of two per cent for the use of funds for 30 days or 24 per cent for the year. On the basis that the money is worth six per cent per annum there is a profit of 18 per cent in taking the discount. Therefore, it is not surprising that buyers strive to get as big discounts as possible.

In some houses there is a rule that buyers should get an average of five per cent discount for cash. They figure on selling their merchandise so low as to eliminate any net merchandise profits, depending on the discount profit for all the net profits of the business. In the long run such houses are simply buying discounts. Altho they are not aware of it, they are usually paying a higher price for their merchandise in order that a discount may be thrown in. It is good business policy, once the desired merchandise has been purchased, to secure as good a cash discount as possible, but this should not be made the sole aim in buying merchandise.

12. *Accrediting the discounts.*—It is often a question among retail merchants whether discount is to be considered a part of the price of the merchandise and therefore a trading profit, or whether it is to be taken as a result of financing the business and therefore a financial profit. In other words, does the discount go to the credit of the merchandise division of the business, or is it an office profit?

Practice varies and there are many arguments on both sides. To the writer, it has always seemed that as cash discounts must be taken under existing conditions of retail competition, if the retailer is to make a living profit, the buying cost of the merchandise is the net price after all discounts have been taken off, and for that reason the cash discounts belong to the merchandise division. In that case the merchandise and discount profits should be combined to show the profit in each line.

13. *Pricing goods.*—As is shown in the merchandise plan, a mark-up is set for each line. This is the amount of gross profit which must be maintained above all losses and reductions. It serves only as a general guide in pricing each lot. Goods are bought to be sold within a definite price range. The buyer is in the market for women's ready-to-wear suits to be retailed at $25.00 and he is expected to make a certain gross profit. Therefore, he knows what the limit of cost must be and buys accordingly.

To get a definite line on values it is well in some instances to allow the salespeople to assist in buying. When, for example, the traveling salesman of a cloak and suit house shows a line of suits to the proprietor of a retail store the proprietor may consult with his salespeople and have them suggest retail selling prices without knowing the cost of the suits. It may be that the consensus of opinion on certain styles indicates that they can be profitably sold at $25.00. It will be advisable, then, for the proprietor to make the purchase.

Perhaps at this retail price they may bring more than the desired profit; if so, the extra profit will help to balance a loss somewhere else.

After all is said and done goods are worth only what they will bring. That is the decisive test. Slow moving goods must be reduced in selling price and gotten rid of, even tho a loss must be taken. It is well to remember, too, that the sooner the loss is taken on such merchandise the less it will be.

14. *Profits.*—What is a fair profit for the merchant? In the first place let us define the term. Profit is that amount which a merchant has left after all expenses have been paid, including such items as interest on capital invested and reasonable compensation to the merchant for his services. Profit must include not only payment for ability but also for initiative and for risks which the merchant takes in doing business. Profit to the merchant is his gage of success.

The man who has brought the business into being, who has given much time to the study of business conditions and upon whom at all times rests the responsibility for the success of that business is entitled to a reward which is greater than that going to any one in his employ.

15. *Buying by monthly quota.*—It will be remembered that that merchandise plan shows how much business should be done during a season. The season is split up into months so as to form a quota for each month. It is also necessary to leave stocks clean at the end of the season and for this purpose a minimum

is set. The merchant can figure on what his sales and stock on hand should be each week in every line and how much it is necessary to buy thruout the season. The necessary sum is allotted to each department, by months, and as purchase orders go thru, the totals are deducted from the allotment. Some stores will not allow buyers to exceed the current allotment for each department unless unusual conditions occur. If sales run ahead of the quota, the amount of increase is automatically added to the current buying allotment; and conversely, if sales run behind, it is deducted.

This system has been criticized as being too mechanical. Buyers often complain that their superiors will not allow them to buy the necessary merchandise. This is usually an acknowledgment of poor buying in the past. Successful merchants move slow-selling merchandise by freshening it up with new goods and are no less anxious than the buyer to dispose of it.

16. *Keeping in touch with the market.*—In lines in which styles play an important part, the buyer for even the small store visits market centers frequently in order to keep posted. These visits sometimes result in getting better prices and they always prove of value in strengthening the relationship between wholesaler and retailer and in giving the latter a better knowledge of merchandise and trade conditions. The buyer must use other means of studying the market. He must make himself familiar with trade papers, catalogs, circulars and quotation sheets of wholesalers

and manufacturers. He should be acquainted with the trade association in his line, particularly if it offers a buying service such as is rendered by the National Retail Hardware Association.

17. *Selecting the wholesaler.*—For the retail merchant various questions arise in connection with the selection of wholesalers. For example, should the retail merchant buy from nearby wholesalers, or from those located in distant markets? In the case of small retailers, the closer the buyer is to the source of supply, the better. Jobbers clearly recognize that there is a distance beyond which they cannot render efficient service. Some manufacturers, as the Regal Shoe Company, have found it necessary to open branch warehouses at various centers with complete wholesaling and dealer service equipment in order that customers at a distance may be served efficiently.

18. *Concentration of purchases.*—Should the retail dealer scatter his purchases among a large number of wholesalers, or should he concentrate on a few? There can be no doubt of the value of concentration. The wholesaler with whom the buyer does a large part of his business is in a much better position to cooperate with him than a wholesaler who secures only a small part of the business. Concentration is also necessary to secure the exclusive agency for a line of goods.

It has even a greater value as an insurance against financial troubles and a guarantee of prompt deliveries. If an honest dealer finds himself in perilous waters, he can almost always secure financial assist-

ance if he has been accustomed to dealing with a few houses. If the situation is reversed and the dealer is found owing many concerns it is almost impossible to help him. When a merchant fails and there are found to be a great number of creditors to satisfy, that fact is likely to be held by the trade, if not by the courts, as *prima facie* evidence of fraud.

There is a middle course to pursue with respect to concentration. Care must be taken so as to avoid too narrow a relationship between the buyer and a few salesmen from manufacturers and wholesalers. If the buyer fails to "shop around," unless he haggles occasionally, he is not likely to secure bedrock prices. In any case he must be alive, independent and know what wholesalers are offering; the rule of *caveat emptor* has not entirely passed away and it behooves every buyer to know his market in order that he may secure at all times the prices prevailing in it.

19. *Buyer's attitude toward salesmen.*—In any interview between a buyer and a salesman, the advantage goes to the one who dominates. The alert buyer is quick to put his man on the defensive and makes him prove all statements about his goods. A good salesman, too, is quick to perceive a buyer's ability and treats him accordingly.

Courtesy on the part of the buyer is never wasted. A salesman may have nothing of interest to offer one season, but the following season he may have a splendid line, and will be disposed to help the buyer who, altho he may not have bought, has nevertheless

been friendly. This is especially true in a seller's market as during 1918 when retailers had trouble in getting goods. Then it is that the buyer who has treated salesmen squarely and courteously gets the favors, while the buyer who has always been gruff and quick to take unfair advantages begs in vain for merchandise.

20. *Selecting merchandise for quality.*—That the buyer should be able to judge qualities goes without saying and yet scientific tests have not been resorted to by most houses until recently. Large concerns now often make most elaborate tests of materials in their own chemical laboratories in order to satisfy themselves or their customers. Some of the large manufacturers issue booklets describing the tests of their product. Many products may be sufficiently tested by simple experiments, and buyers sometimes have occasion to make them. Most lines now have books describing practical tests. The textile line has a number of such books.

21. *Style, novelty and exclusiveness.*—The class of trade which is being catered to will determine the degree of importance to be given to such questions as style. It is always advisable to have a few novelties on hand to attract attention and brighten up the store. Such lines as oriental rugs, diamonds, furs and gowns in retail stores located in the smaller cities and towns may often be carried on consignment. Fresh, attractive merchandise offers a strong selling appeal and adds greatly in advertising the store.

Exclusive merchandise appeals to a class small in number, but with great buying power. Only merchants in large cities can, however, carry it.

22. *Stocking new lines.*—When it comes to a consideration of new lines which would compete somewhat with those already carried, or with specialties and luxuries, the buyer should ask himself such questions as: Is there sufficient demand for the article? Do I now have in stock similar articles that will answer the purpose, or that are even better? Will it fit into my merchandise plan? Are the manufacturers to be relied on for quality and for deliveries? What quantity can I sell in one month; in six months? After these questions have been settled in the buyer's mind he can then consider the more concrete ones of price, discounts, margin of profit and others.

23. *Buyer must act as merchant.*—From the foregoing presentation of the buyer's duties, it would seem that he had his hands full in tending solely to the work of buying. But in most retail stores, from the smallest to the largest, the buyer has to combine buying with merchandising. Very large stores expect their buyers to spend their first hour in the morning supervising the arrangement of the stock on the selling floor and also in the reserve stock rooms. From that time until, say, eleven o'clock, their time is given to buying. The remainder of the day is spent on the selling floor, assisting salespeople and customers. Many buyers "keep a book," as selling and making out sales slips is called. No buyer unless he gets

this personal contact can know consumers' wants. In addition, if the buyer is to be a thorogoing merchant, he must collaborate with the advertising man in planning the advertising copy and cooperate with every other department in order that the store may be operated harmoniously and effectively.

REVIEW

Must the merchant know how to buy as well as sell? What is meant by the saying that a merchant's profit or loss is made when he buys?

Do retail merchants usually buy according to a proved plan? What is the basis for a sound purchasing plan in a men's furnishings store?

How do you figure turnover?

Distinguish between merchandise discounts and finance discounts as applied to merchandising.

What factors should a buyer keep in mind before purchasing?

CHAPTER X

STOCKKEEPING

1. *Necessity for good stockkeeping.*—Great care being taken by retail merchants to obtain the right kind of merchandise, it would be natural to suppose that they would exercise a similar caution in handling and keeping track of it after it had been purchased. Yet it is remarkable how seldom this is done. Once he has received the merchandise, he is likely to relax his acute interest in it and become engrossed in the other phases of management. Handling and storing of merchandise appear as merely mechanical details. He can not see any opportunity there for executive attention.

2. *Depreciation and its causes.*—The retail merchant obviously buys merchandise in order to sell it again at a profit. Buying, no matter whether the proprietor does it himself or leaves it to a salaried expert, is an expense. One department store adds seven per cent for overhead in connection with buying, another store four per cent. The average expense for this item is probably about five per cent. To this add freight, cartage and receiving room expenses and a proportionate share of general overhead, deduct any cash discounts, and you have the net delivered cost

of your merchandise. Every dollar's worth of merchandise brought to the selling floor has thus added nearly ten cents in transit, and the minute it gets there it begins to depreciate. In some lines, such as millinery, only two weeks is allowed for selling the goods at the regular price, while in other lines the time allowance may be from two to six months. When the time allowance expires, the goods are marked down sharply, and at frequent intervals after that until they are sold.

What are the causes for this depreciation? Much of it can be traced directly to improper storing and lack of care in handling. Boxes become broken and goods are soiled, mussed, faded, even stolen. The losses then are direct. Ranges of sizes, colors and styles become irregular and are not filled in; and goods are allowed to remain in the stock rooms which should be on show. Here the loss is indirect. Stock is permitted to run out or else salespeople having no knowledge of the exact condition think it has run out; in either case sales are lost. Meanwhile, the overlooked goods may be going out of style or otherwise depreciating.

Such a condition of affairs is a handicap on both selling and buying. It can be remedied by the establishment of a system and by adequate supervision of its working.

3. *Receiving the goods.*—It does not matter where the merchandise is received, whether at the back door, or at a special entrance to the receiving room, the

important thing is that there should be at all times some definite place where it is received, and where the receipt of it is recorded. The receiving quarters need be only just large enough to hold the inflow of goods for a short time; they should be dispatched at once to the selling floor or to the reserve stock room.

4. *Invoicing the goods.*—Let us consider again the case of the store which adds 7 per cent for buying expenses. The merchant buys a lot, say, of ten dresses. The freight and cartage upon them is $2.00. The dresses cost him $10 each at wholesale, and he obtains a discount of 5 per cent ten days, net 60 days. The discount is to be taken. Suppose the merchant is to get a mark-up of 20 per cent on retail or 25 per cent on cost. The invoice with his annotations would read as follows:

10 dresses at $10.00 each	$100.00
5 per cent for cash in ten days	5.00
Net to manufacturer	$ 95.00
Freight and cartage	2.00
Total cost of dresses	$ 97.00
Direct buying expense and general buying overhead at 7%	6.79
Net delivered cost of dresses	$103.79
Net delivered cost for each dress	10.38
Mark-up desired, 20% of retail (25% on cost)	2.60
Retail price per dress	12.98

The merchant or his buyer would next look over the goods, calling into consultation several of his

salespeople to help him decide on pricing the goods at retail. Some dresses might appear better than others, in fact all kinds of contingencies might affect his decision in setting the price. But under ordinary conditions the price for each dress would be $13.00, or in stores where "penny prices" prevailed, $12.98.

5. *Marking the goods.*—In the receiving room, a ticket will be made out for each garment, showing the lot number, the size, the color and the price at retail. The cost price does not show on the ticket, even in code. Thereafter, the dress is a $13 dress, not a ten dollar one, and this is important because of the influence created by names and terms.

In some houses, after the invoice is paid and destroyed, there is no way of telling absolutely what any individual article cost, tho the general idea may be gained from the average mark-up required in a department or line. What concerns the retailer most is what the article will sell for. If a department buyer has not marked up an article to the usual limit set for that line, the receiving clerk should get the authority of the management before marking the goods below the figured per cent of mark-up.

6. *Appraising the goods.*—The value of the goods at inventory time may be greater or less than the cost, and the only way to find it is to appraise the merchandise and ascertain what it will bring, at what price it can be replaced. If the merchandise consists of staples and the market is rising, the merchant will appraise it at its current market value and mark up

his retail price correspondingly. If, on the other hand, it is depreciating for any reason, or if the market is declining, he must appraise it for what it is worth at the time of inventory. He must also reduce his retail price correspondingly. If he makes profit from a rising market he should take it without any qualms of conscience just as he must take in a philosophical way any losses that may occur on account of a falling market. In the latter case the sooner the losses are taken the lighter they will be.

It is not to be recommended that the retailer become a speculator as are so many jobbers. The retailer is in business to distribute goods at a fair profit. If he feels assured of a rising market he uses good business judgment when he buys at a low price staples to last him for several months. His primary purpose, however, in buying is immediate resale, not speculation. If a retailer in food products buys more than he can sell and stores them in order to speculate on the produce exchange he is certainly in that respect not performing the duties of a retailer.

7. *Keeping reserve stocks low.*—There is no fundamental reason for keeping large reserve stocks. The buyer should be able to distribute his deliveries in such a way, and to obtain so much merchandise on reorders, that whatever stock is required to run the business can be kept on the selling floor. If merchandise is held in reserve, it is dead stock and a drag on the business. Realizing this, shrewd merchants have cut down the space allowed for reserve stocks.

A New York department store, for example, with five selling floors used it to devote a whole floor to reserve stock. At length it decided that keeping so much reserve encouraged overbuying and hence made slow turnovers. At the beginning of the next season, it cut down the space for reserve stock to a quarter of the former space, and set a maximum and a minimum reserve for each line of novelties and each of staple goods. The buyers were instructed to control their stocks and purchasing accordingly. Since this plan not only cut down the "dead" stock, but increased the selling space by three-quarters of a floor, it produced a material increase in sales and greater turnover with greater net profits.

There are many influences which affect the decisions as to the minimum and maximum stock to be carried in each line, the amount to be kept on the selling floor and the amount to be held in reserve. Among the number are: the value of floor space, the amount of floor space required, the question as to whether goods are sold virtually by sample, or whether many different sizes and colors have to be employed, the question whether parcels are delivered or are carried home by the customer.

In any event reserve stocks should be kept at the smallest point compatible with good merchandising service. Let the merchant pass the responsibility for carrying surplus stocks back to the jobber and manufacturer, and let them in turn transfer it to those who collect the raw material. Each, in turn, will in this

way reduce his loss from slow-moving stocks, and hence reduce the cost of retailing, which ultimately the public pays.

8. *Arrangement of reserve stocks.*—Reserve stocks should be grouped according to the general plan of arrangement made for the active stock on the selling floors. In a department store the reserve stock of each department is kept separate, generally in a cage under lock and key. In each department the "head of stock" who is generally also an assistant buyer, is in charge of the stock of the department. There may be a stock clerk, also, but generally the work is done by regular clerks of the department during early morning hours. When goods are transferred from reserve to active stock, a requisition is given the person in charge of all reserve stocks and he deducts from his reserve stock inventories the amount that has been removed.

Reserve stock is grouped by lines rather than according to origin, i. e. thru manufacturers, largely for psychological reasons. If the goods of each maker were placed in groups by themselves, the buyer would be tempted to favor the big groups. Since the brands are grouped irrespective of makers, the buyer's judgment is not swayed by this consideration and he is in consequence more likely to get a representative assortment of the most desirable and best selling goods. The retailer who neglects this precaution and buys entire lines for a few manufacturers gets many slow-moving articles along with the

popular ones and also may stock too many competing lines.

9. *Active or "forward" stock.*—After modern fixtures for each class of stock have been provided, according to the amount it has been decided to keep on the selling floors, it is a simple matter to care for it. The makers of modern store equipment have reduced the work of stockkeeping fully 100 per cent. Nevertheless, constant vigilance is still required to keep it in good condition. The greater part of the work of arrangement is done before the store opens and during the early hours of the day when shopping is light. During the day the clerks spend their spare time after each sale in straightening out stocks.

In jewelry stores, where small articles may carry great value, each article or tray of articles is returned to the show case before another is brought out. In gown stocks, sometimes, where business is brisk, girls follow the sales clerks to put back each garment as soon as the customer has finished with it. In every store, the article must be in selling condition before it is returned to stock. Any damages must be repaired and any defects in equipment—breakages in stock boxes, for example—given immediate attention.

10. *Importance of keeping track of stock.*—In addition to performing the mechanical work of stockkeeping accurately and properly, it is important that proper records be kept of number of items, sizes, styles, colors, grades and so on for each line of goods. This is the only basis upon which reorders are given.

The information may be secured by the use of one of two methods, or a combination of both. The older method—that of the physical inventory—was, until recently, considered the only satisfactory one. It consists of taking an inventory at regular intervals, usually yearly, of the goods on hand, noting the value of each article, the total amount in each line and the grand total of the entire stock of merchandise. The goods should be appraised at either the amount they will bring, or the amount at which they can be replaced. If the stocks are carried at retail, the mark-up should be deducted from the appraised retail value. The result is the appraised cost value.

The newer method is the perpetual or book inventory. When this is used, a record of purchases and sales is kept in order that the difference may be computed to show the amount on hand at any given time. It has been found to be on the whole more accurate than the physical inventory, tho theoretically, there would seem to be no reason why it should not be used as effectively in the case of merchandise as in the case of funds. Many firms, too, have found the practice as satisfactory as the theory. The Great Atlantic and Pacific Tea Company requires each store manager to account for each penny of sales. For example, if an egg is broken, the shell must be kept as a "voucher."

When the perpetual inventory is used, the physical inventory—whether taken weekly as in some grocery chains, monthly as in a cigar chain or semi-annually

as in the average department store or general store —is used as a check against it. In the following statement Mr. Frederick A. Ayres, president of the department store of that name in Indianapolis, illustrates the reliance now placed on cumulative inventories:

Until about six or seven years ago, we made a semi-annual physical inventory of our stocks, at cost, having no method of checking these inventories other than trying to assure ourselves that the inventory itself was made with proper care and thoroness.

The various percentages of mark-ups, gross profits, markdown, etc., thruout the year were only approximately arrived at by the experience gained in the past years. Under the system of carrying all our figures at retail, and of depending on a cumulative book inventory, these percentages are now known absolutely and correctly at the end of each month.

The most astonishing fact, however, that was disclosed by the cumulative book system, was that errors crept into the taking of a physical inventory, even under the most careful scrutiny. We found that where it was necessary to take a stock over again, the difference in the two physical inventories taken within a very short time was often very large, showing that under the old system of taking physical inventories at cost, it was impossible to be certain that the final figures were correct.

The advantage of being so certain of the monthly stock on hand was proved to us two years ago. A fire in the building adjoining our main store destroyed part of our stock in the upper floors of that building and caused a considerable smoke damage to the stock in our main building. The fire occurred on the second day of January, or just after we had completed taking our semi-physical inventory.

In this case, all that would have been necessary would have been to wait until these inventories were extended and

recapitulated. As this, however, would have taken a period of two weeks or more, during which time we would have been obliged to keep our store closed, the insurance companies immediately agreed to settle on a basis of the stocks as shown by our cumulative book inventory without waiting to figure up the physical inventory, so that the actual loss of time was cut down to three days.

The discrepancy between the stocks called for by our books under the cumulative system of inventorying and that called for by the physical inventory averages about one per cent every six months.

Instead of invoicing our entire establishment on the first days of January and July, as we formerly did, we now invoice our stocks at such times in the year as are best suited for the individual departments. This procedure has done away with the confusion of invoicing our entire establishment semiannually, during which time the departments are bound to lose their efficiency more or less, but instead allows the different departments to invoice at any time when business in the department is the slowest. We could not be persuaded on any account to give up the system of cumulative or book inventorying on the retail basis.

11. *Methods of preparing for inventory.*—There are two general policies in regard to preparing for an inventory. One is to take stock first and then have special sales afterwards. The other is to clean out the stock first by means of sales and then take the inventory. Most merchants favor the latter method because it reduces stocks to a minimum and lightens the labor of inventorying. For the same reason, merchants buy lightly in anticipation, tho at the same time care is taken to meet the immediate demand in all lines.

12. *Preliminary work.*—A few days before the in-

ventory is to be taken in a large store the clerks and salespeople are given instructions to straighten up their stock. They are required to examine carefully, sort, and count the contents of each case, drawer, bin or container in which the goods have been stored. The results of the examination are written on what is known as a "first count" slip. This is placed in the container with the counted goods. In many stores the number of the container is also noted on the slip.

It is customary to use record slips on which space is provided for filling in the name, quantity, style number, selling price, cost number and whatever other details may be necessary. The slips are usually numbered consecutively so that they may easily be accounted for. They also bear the distinguishing mark of the department to which they belong.

13. *Inspecting stock.*—During the taking of stock all goods are physically examined to learn their condition, and whether they have depreciated in quality or style. In the best stores all stock is tagged. When every article bears a plain mark, confusion is avoided. Moreover, the marking means time saved during inspection and when the goods are being sold.

14. *Changes after first count.*—When new goods are received during the inventory and after the preliminary counting, measuring and all similar operations have taken place, or some of the items counted have been sold, the "first-count" slip in each case is changed to correspond with the facts.

15. *Taking stock while business goes on.*—The old method of requiring salespeople and those who have charge of the stock to stay after hours straightening out inventories and listing goods on the shelves is a thing of the past. The modern method permits stock-taking during business hours, while the department is selling. In stores which keep cumulative book inventories a staff of people taking physical inventories can work continuously from one department to another at any and all times of the year.

16. *Arrangement of inventory books.*—In taking an inventory, books are usually provided with a sufficient number of columns to accommodate the various headlines under which the stock is to be entered, as lot number, kind of merchandise, sizes, types, and any other heading that may be found necessary for purposes of record.

Loose-leaf sheets are ordinarily used for the work. In stores where a number of people are engaged in making the inventory, it is considered desirable to use a number of small books in order that entries may be made simultaneously, and not only in connection with the preliminary work of entering on the sheet the amounts called off, but also in connection with the later work of calculation.

17. *Subdividing the inventory.*—It is desirable to separate the inventory of each department into as many parts as possible, up to the point where further division would mean confusion. This subdivision makes it easy to locate errors. Whichever system is

employed, each page or sheet of the inventory is footed up separately; but totals or total sheets are not carried forward as in the ordinary way. This plan of keeping separate totals makes it easier to locate errors and check up any part of the work.

REVIEW

Why do merchants frequently give less attention to the care of their merchandise than of their cash?

Describe the processes which should be followed when merchandise is received by the store and marked up for selling.

Are reserve stocks desirable, and under what conditions are they necessary?

Explain the difference between a periodical and perpetual inventory? How do they supplement each other?

Describe the method of operating the perpetual inventory and the physical inventory.

CHAPTER XI

COOPERATION FOR SERVICE

1. *Problems of changing conditions.*—Obviously the fermentation going on in the field of distribution could not fail to bring to the surface many new and weighty problems. If these are especially acute for the wholesale merchants as a class, on account of the greater size of their individual risks, they are not less so for many retail merchants. Competition, for one thing, has become keener. Then, too, the public's wants which were fairly constant in the old days, now under the push and pull of up-to-date sales promotion, shift this way and that and are difficult to follow. All phases of merchandising, in short, have been enormously complicated and quickened, and the merchant who would be sure of survival, to say nothing of achieving success, finds himself obliged to keep track of many different tendencies and to make frequent adjustments to them.

2. *Working toward a conclusion.*—On the whole changes are, no doubt, in the right direction. It is one of the signs of happy augury that the business world is facing its problems in a new spirit. A new idea has dawned: we are realizing that individual experience is a valuable thing to the whole—in truth

so very valuable, that every one who takes part in the exchange of it gains ten, a hundred or a thousand fold what he gives. Our problems, difficulties, wastes and frictions, whether well meaning or perverse are now chiefly ascribed, as they ought always have been, to sheer ignorance. "Get the facts and spread them" is the new business slogan. With this greater light, manufacturers, jobbers, retailers, their trade associations, the Chamber of Commerce of the United States, the Federal Trade Commission and the Department of Commerce—all are lending their efforts in one way or another towards the increase of our knowledge of the vital facts of business and the more general diffusion of such knowledge.

3. *Increasing organization.*—The more important trade tendencies have previously been noted. It is too early to predict with any certainty what their issue, either immediate or remote, will be. In the long run, one of two broad tendencies—dismissing the remote contingency of nationalization—must no doubt prevail. One is towards a system of a few big units engaged in either manufacture or distribution, or both, with no place for individual manufacturers, jobbers or retailers. The tendency in that direction is for the moment strong. How long it will continue is a question. The other tendency is towards a system consisting, much as at the present time, of a multitude of small concerns of all classes, but closely linked, as they are not now, by many bonds of interest which they are only just coming to recognize.

This recognition is really the significant feature of the situation. In view of it, there is small reason to conclude that the existing system is seriously threatened or that its evolution toward more wholesome conditions will be checked by the counter tendencies of monopoly. On the contrary, it is monopoly that has most reason to look to its own protection. Despite the many and great advantages it has enjoyed in the past, big business in most lines has been unable to shake off the competition of the small houses. Its advantages steadily grow less. These advantages have been discussed in a previous chapter, and we need only refer here to the gains of the small independents. They are getting their information and ideas cheaper now than ever before. What the largest concerns have been hiring $50,000 and $100,000 men to do for them is being spread broadcast for the cost of a subscription to a business course, a business paper, a trade journal and the like. This is as true of financing as of accounting, production and selling. No doubt organization will go on increasingly. The only question is which form it will take, whether by centralized authority or by voluntary cooperation.

4. *Phases of cooperation.*—Altho the help given by the Department of Commerce, the Federal Trade Commission, the trade and business papers, the universities and other educational institutions is not regarded as cooperation, in the restricted sense in which the word is commonly used, nevertheless, its effects come to the same thing. The help is not of course

given to the small as against the large merchant; it is for all. The fact is, however, that the large merchant was already securing the like information and the small merchant was obliged to go without it or obtained it only long after it had done duty for his powerful competitor. But these agencies of government and education, by gathering and spreading the vital data of current business now lift the small man to a parity of opportunity with the large man, in some important respects at least, and furthermore encourage and stimulate him to find other ways to overcome the remaining handicaps.

The part played by the trade and business press and by business literature in general in this movement is easily understood. The Federal Trade Commission, in addition to restraining unfair business practices and to that extent protecting the honest independent merchant, has performed a large share of the work of awakening the business world to the importance of cost accounting. Harvard University, thru its Graduate School of Business Administration, has prepared elaborate uniform cost accounting forms for retail dealers in five lines of business, having previously found it impossible in any other way to get reliable data for its comparative study of retail costs in which it is engaged.

Similarly important work for retailers has been done by the manufacturers and the jobbers to whom naturally it is a matter of the greatest consequence that their customers shall be prosperous and enter-

prising. The work has taken the form of instruction in cost finding, pricing, stock-keeping, buying, advertising and salesmanship. The Associated Advertising Clubs of the World have organized the instruction in cost finding principles on a broad scale and are promoting the use of uniform accounting methods.

In addition to this cooperation from outside the ranks of the retailers has been the older cooperation within. Each line of retail business has its own local or sectional trade association, which is included within larger national associations. These associations facilitate the exchange of information and opinion and enable the members to act as a unit in all matters, legislative or otherwise, affecting their interests.

True retail cooperation is an affiliation of independent retailers. The less closely affiliated are generally buying combines. Sometimes the combine organizes more closely as a wholesale company, as in the case of the Girard Grocery Company of Philadelphia; or as a manufacturing company, too, as in the case of the United Drug Company, the individual members in either case holding stock in it.

5. *Combine of department stores.*—The most interesting development of this nature is the recent union of eighteen high class department stores located in non-competing territories for the purpose of securing and exchanging information among themselves, and of systematized buying. The organization is called the Retail Research Association. The membership includes the William Filene's Sons Company

of Boston, Scruggs-Vandervoort-Barney of St. Louis, The Emporium of San Francisco, The Bon Marché of Seattle. Selfridges of London is a recent member and Paris and Melbourne are also represented.

The association makes two striking and very significant departures from merchandising tradition. One is the weekly exchange of the most intimate, detailed and complete figures on sales, costs and profits in all lines. Each store, in other words, knows what the other stores are doing, how they are doing it and with what results. Such a course by a business house would have been regarded not so long ago as suicidal, altho it is true that Edward N. Hurley, when chairman of the Federal Trade Commission, made the prediction that it would not be many more years' time before all business houses would be exchanging just such information as a matter of course, in the same way and for the same reasons that engineers and other professional men exchange professional data.

At all events, it is obvious after even the most superficial reflection, that every member store of the Research Association must as the result of cooperation obtain information of almost priceless value to it, in comparison with which the sacrifice of privacy and any possible benefit contingent upon it are infinitesimal.

Outside of the exchange of store statistics, a service has been developed by the association which supplies its members with data and illustrations of forthcoming styles. The New York office provides extensive

quarters for the visiting buyers of these stores. Conferences of such buyers of each line as may be in town, take place regularly, programs for discussion being prepared in advance and every effort being made to make the meetings fruitful. The association also has resident experts to assist the buyers. The buying power of the stores is not formally pooled, but the effect of combination must be somewhat similar.

6. *Effects of retail cooperation.*—The working of this form of cooperation, if it continues to be successful, will naturally be reflected in the increased prosperity of the stores participating; in the lower prices at which they sell merchandise; or in the larger stocks they carry. As soon as this becomes apparent, we may expect to see a rapid development of similar cooperation among other stores in non-competing territories and a similar exchange of cost and sales figures.

It is not difficult to realize that the broad development of retail cooperation would be a blow to the retail chain systems, since it would deprive them of virtually all the strategic advantages they may have left after the campaign of retail education now proceeding, would enhance competition, raise their costs, and not the least serious of all, complicate their already difficult personnel problem by increasing the temptation on the part of the trained employes to go into business for themselves.

It is not necessary to pursue the question as to what might follow if the situation at length came to be

dominated by retail cooperative combines. Competition between the several sectional and national associations, as well as with the powerful manufacturing groups; the growing standardization of costs and prices; and lastly the public's increasing information and interest on all heads doubtless afford safeguards against any monopolistic tendencies that might develop in that quarter.

7. *End is service.*—The public's greatest safeguard in the future is, perhaps, to be found in none of these, but rather in the fast growing conception of business service. Service is what cooperation is for. It is the ideal of this decade, as "results" was that of the preceding one. Permanently satisfactory results for a house can only be obtained thru enlightened regard for the interests of the customer.

This is getting very close to the heart of the matter. What in the past was called service has often covered a multitude of blunders. Under the stress of severe competition, it has many times run wild. The war has brought about many changes. Much of the economy in service it enforced has been found to be sound merchandising. True service will always center in better values and wider variety, at lower prices. Necessarily this rules out a lot of the excessive frills and sumptuousness of surroundings that have been supposed indispensable for the attraction of the public. The ends sought will rather be attained, all the tendencies of the times indicate, by even greater and greater concentration on the fundamentals of buying

and selling, on securing and exchanging information, on standardizing practice and increasing cooperation. As the present wastes and inefficiencies are still undeniably great, the changes to be made will no doubt be equally so. Moreover, they must be so, in order to keep pace with the rapid manufacturing development.

Nobody, therefore, can safely predict the extent of retail expansion during even the next few years. Many of the greatest opportunities in business are certain to be there and the field is therefore as deserving of study and understanding as any other department of business.

REVIEW

How do you account for the fact that so many small retailers are now interested in progressive merchandising and are getting the benefits of all new ideas as quickly as their more powerful competitors?

What is the watchword of the present era in evolution of merchandising?

Why must combinations among independent retailers successfully combat and perhaps in the long run drive out of business chain store organizations?

Do you think it the part of good business to exchange with non-competitors in your line the most intimate business information?

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